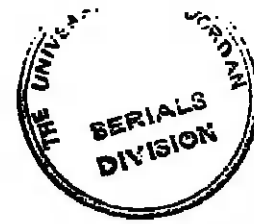


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EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

COFFEE

Colombia considers price support

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Tuesday September 3 1991

World News Business Summary

Ceasefire in Yugoslavia may signal Serbian shift

The ceasefire agreed by the European Community and leaders of Yugoslavia may be the first step towards establishing a genuine peace. However, it may also signal a shift in Serbian president Slobodan Milosevic, who is one of the principal protagonists.

Milosevic visited Nelson Mandela, who visited three hunger strikers charged with killing blacks, demanding they be freed and allowed to testify about alleged state involvement in their crimes. *See De Klerk, page 4*

Egypt's former president Hosni Mubarak visited three hunger strikers charged with killing blacks, demanding they be freed and allowed to testify about alleged state involvement in their crimes. *See De Klerk, page 4*

Border guards' reward: Nearly 10 years in remembrance, a former East German border guard told a Berlin court that he accepted a reward worth \$2 for his role in the fatal shooting of a would-be escapee at the Berlin Wall.

Warfare aircraft blown up: Red Cross flights to southern Sudan have been halted temporarily after an aircraft carrying relief supplies was destroyed by a mine on the strip of the government-held town of Wan. The crew survived but one is critically ill. *Page 4*

Walker to resume mission: US secretary of state James Baker will return to the Middle East next week to conclude talks with both Israelis and Arabs for a peace conference, the Israeli Foreign Ministry said. *See Jerusalem, page 4*

Greek minister accused: Greek tourism minister Ioannis Kefauyannis was accused for publicly refusing to sign a decree banning seaside hotel construction, a government spokesman said.

Train bomb kills eight: Eight people were killed and 27 injured when a bomb exploded on a Pakistani passenger train near the Afghan border.

French communists split: Divisions in the French Communist Party (PCF) have widened with a plan for "renewal" reforms by nearly a third of its parliamentary members. *Page 5*

Unidentified murdered: Suspected Marxist guerrillas shot dead a retired Peruvian minister who had served as navy intelligence chief. Peru order to investigate. *Page 4*

Canada faces strikes: With a postal strike already underway and federal civil servants threatening to walk out, this week, Canada is bracing for the most disruptive labour action in recent years. *Page 8*

Shuttle alleges plot: Pakistani opposition leader Benazir Bhutto accused the authorities of plotting to kill her husband, Asif Ali Zardari. She said top police officers informed her of plans to attack him.

Drugs haul worth \$500m: More than 4,000lb of cocaine worth \$500m was seized near Britain and 10 people arrested in the largest such operation in New England after Indonesian agents penetrated a drug ring.

Mineral power hails mine: Purple warty back mussels, ballhead mussels and other endangered species halted work on Flambeau Mining's \$30m copper mine in Wisconsin. A US judge imposed a preliminary injunction to stop all work. *Page 28*

Cresson calls for curbs on partial state sell-offs

Mrs Edith Cresson, the French prime minister, has warned that the government should not sell stakes in state industry just to raise cash to help curb the budget deficit. Her remarks open a potentially divisive debate within the government on the terms under which it should allow further partial privatisation of state-controlled companies. *Page 18*; Israel moves closer to chemicals sell-off. *Page 4*

JAPAN: The country's Ministry of Finance, which is probing a spate of financial scandals, disclosed that it suspects stockbrokers' companies may have illegally promised clients guaranteed rates of return on their securities investments. *Page 18*; Japan aims to set up 10 free trade zones. *Page 4*

FEUGEOT, French carmaker which also includes Citroën, is to merge the design and technical planning departments of its two marques, to achieve economies of scale more in line with its Japanese competitors. *Page 19*

LONDON STOCKS: The FT-SE 100 index jumped 33.9 points to a record closing high of 2,678.8, sparked by a surge in

FT-SE 100 index

the premium for the futures over the cash market after an opinion poll gave the Conservatives a two-point lead over the Labour opposition. *See Page 18*; London stocks, *Page 27*; Markets, *Page 36*

ITALY: New evidence has come to light indicating links not previously admitted between the two Italian stockbrokers which went into forced liquidation last week and companies associated with Mr Roberto Calvi, the Italian financier. *Page 19*

BREXIT WALKER: George Walker, deposed chief executive of the troubled leisure group, is repudiating a £37.5m (\$66.2m) loan to a family trust from a consortium of banks led by Standard Chartered.

GRAND METROPOLITAN and Allied-Lyons, UK drinks groups, have each acquired a 25 per cent stake in New Zealand Wines & Spirits, liquor manufacturing and distribution subsidiary of Lion Nathan, the New Zealand brewer, in a deal worth a total of NZ\$281m (\$34.8m). *Page 24*

PERSEUS: The deep recession in the UK housing market shows no signs of easing, according to the group which has become one of the country's 10 largest housebuilders. *Page 24*; *See Lex, Page 18*

STOCKHOLM stock exchange is to launch an investigation into the circumstances surrounding the collapse of the corporate empire controlled by Erik Penser, Swedish financier. *Page 21*

HUTCHINSON Telecom, Hong Kong-based mobile communications group, has moved into continental Europe by buying a majority shareholding in ABC Telekom, the German mobile communications retailer. *Page 21*

GROUP LOTUS, UK sports car maker and automotive engineering consultancy, is cutting its car manufacturing work force by a third in the face of a big drop in forecast sales in the US. *Page 8*

China portrays UK visit as end of isolation

By Philip Stephens, Political Editor, in Beijing

CHINA yesterday sought to present the visit of Mr John Major, the British prime minister, as evidence that the regime's diplomatic isolation has come to an end.

Beijing was also keen to play down the significance of the rapid disintegration of communism in the Soviet Union.

Premier Li Peng, one of the principal architects of the violent end to student protests in Tiananmen Square two years ago, told Mr Major that the collapse of communism in the west would make no difference to political control in China.

His comments, at a welcoming ceremony at the edge of the square in which the army crushed an emerging pro-

democracy movement, came as Mr Major defended his decision to visit Beijing against criticism in Hong Kong and Britain.

Mr Major, who was due this morning to sign an agreement with Li to allow the construction of a \$16.2bn airport in Hong Kong before its reversion to China in 1997, rejected suggestions that he was offering succour to a tyrannical communist regime.

He insisted the airport deal was essential to preserve stability and confidence in Hong Kong in the run-up to the colony's transfer to China.

"I have to live in the real world. It would not be proper to sit back and strike an atti-

tude and let Hong Kong pay the price."

China insisted that construction of the airport could go ahead only if he agreed to be the first western leader to visit Beijing. Mr Toshiki Kaifu, the Japanese prime minister, is the only other leader of a significant democratic country to have travelled to Beijing since 1989.

Mr Major promised to raise directly with the Chinese premier his abhorrence of the human rights abuses in the wake of the Tiananmen crackdown. He is expected to mention a number of individual cases in which students and workers have been imprisoned without trial, as well as Bei-

jing's long-standing record of repression in Tibet.

Mr Major, who will be meeting most of the Chinese leadership but not the reclusive Deng Xiaoping, is also using the talks to persuade them not to block western plans to greatly increase the authority of the United Nations.

With the Beijing regime determined to persuade its own population that it has regained international respectability, Mr Major was faced with a well-known dilemma: to continue economic reform, however, it warned against bourgeois liberalisation and the threat to socialism posed by a "peaceful evolution" to capitalism. China would never adopt

a multi-party system, it said.

Angus Foster adds from Hong Kong: The approach of Mr Major, who will tomorrow travel to Hong Kong, will not win universal approval in the colony. Mr Martin Lee, leader of its largest political grouping, attacked the airport agreement and said local people now view 1997 as "doomsday".

Mr Lee described the airport agreement as a "breach of the 1984 Joint Declaration" which prepared the way for Hong Kong's return to China in 1997. "China wants to control Hong Kong and they want to control it even before 1997," he said.

Hong Kong Impasse, *Page 4*
Editorial comment, *Page 16*

Proposed new power structure would end Soviet central control

Gorbachev bid to save union

By Leyla Boulton and John Lloyd in Moscow

A NEW power structure which would formally end more than seven decades of centralised power in the Soviet Union and give the republics political supremacy was yesterday presented to the Congress of People's Deputies, constitutionally the supreme lawmaking body of the Soviet Union.

The proposals would render the Congress impotent. Deputies agreed to put them on the agenda after the plan was put to them as a fait accompli by Mr Nursultan Nazarbayev, president of Kazakhstan, after agreement was reached on Sunday between Mr Mikhail Gorbachev, the Soviet president, and the leaders of 10 republics.

The proposed structure provides for new bodies of central authority which would operate until a new constitution was adopted and elections for more permanent institutions are held.

In a last-ditch effort to salvage some version of a union and retain Mr Gorbachev as Soviet president, the plan offers each republic the possibility of concluding a Union Treaty in which it would independently determine the form of its participation.

The choice of Mr Nazarbayev rather than Mr Gorbachev to make the announcement underlined the dominant position of the republics over the remnants of the old Soviet structures - discarded by passivity or acquiescence in the failed putsch launched on August 19.

"We have now entered the period of transition from a totalitarian state to a real confederation," said Mr Georgy Shakhnazarov, political adviser to the Soviet President.

Seated next to Mr Boris Yeltsin, the Russian leader, in the front row of the Congress, Mr Gorbachev listened impassively to the new proposals. The Soviet president later presided over part of the afternoon session, but made no speech.

Designed to "prevent further collapse of structures of power," the statement proposes three new bodies to run inter-republican affairs:

- A State Council containing the Soviet president and the republican leaders to "co-ordinate foreign and domestic issues";
- A Council of Representatives of Peoples' Deputies, with 20 deputies from each republic;
- An interim Inter-Republican Economic Committee "to co-ordinate management of the economy and the conduct of



Red Square demonstrators call for the resignation of People's Deputies who supported the recent failed Soviet coup

Continued on Page 18

Major draws hope from Moscow snapshot *Page 2*

Gateway for western investment *Page 3*

US recognises Baltic states *Page 18*

IBM wins £1.5bn Royal Navy helicopter contract

By David White, Defence Correspondent, in Portsmouth

IBM, the US computer group, yesterday won the largest British defence contract ever placed with an overseas company with a successful bid to manage production of new helicopters for the Royal Navy.

The deal, worth £1.5bn (\$2.5bn), is linked to a provisional first production order for 44 Merlin EH101 helicopters.

The US company launched its bid in association with Westland, the helicopter manufacturer based at Yeovil in western England, which has developed the Merlin airframe with Agusta of Italy.

IBM's share of the work which covers the helicopter itself, its electronics and weapons systems and in-service support, is expected to be less than 2 per cent. In spite of IBM's management role, all the hardware for the helicopter is to be produced in the UK or elsewhere in Europe.

The decision announced yesterday by Mr Tom King, defence secretary, is a setback

to the UK's two biggest defence contractors, GEC and British Aerospace (BAe), which had submitted a joint bid for the contract.

IBM won the competition despite a last-minute offer by GEC and BAe to reduce their price for the order. The offer, made to government ministers last week by Lord Weinstock, the GEC managing director, is understood to have still been higher than IBM's bid.

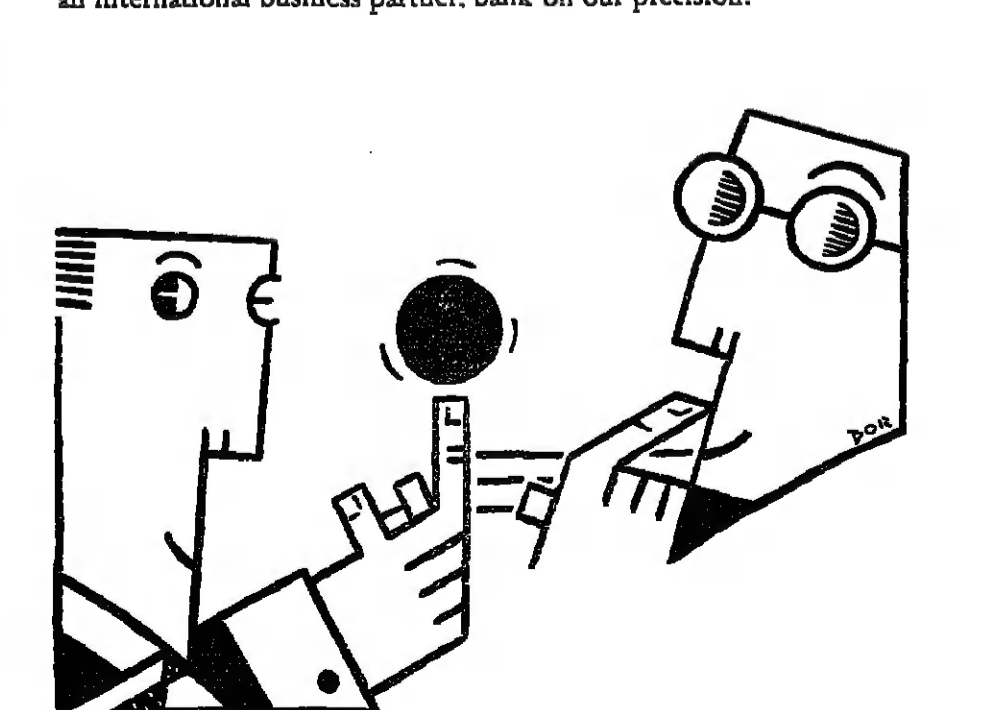
Speaking on board the aircraft carrier Ark Royal during an arms exhibition in Portsmouth, Mr King said IBM had offered "a slightly lower cost quotation and better value for money."

The contract is in addition to £800m spent already by the UK on developing the EH101 which the navy needs mainly for anti-submarine operations.

As the programme stands, each of the navy's 44 EH101s will have cost £52m, or more than 2½ times the price of a Tornado jet bomber. "It looks expensive," Mr King admitted

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A waste of words is also a waste of time and money. With our vast information resources we can get to the point quickly, to give constructive advice without juggling words. This is just one of the reasons why we have become one of the largest banks in Germany, with a balance sheet total of over DM 124.5 billion. If you're looking for an international business partner, bank on our precision.



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US gears up for show trial of former Panamanian ruler



The trial of General Manuel Noriega, which opens in Miami tomorrow, will be a David and Goliath struggle as the US lines up its team of 20 lawyers to prosecute the former Panamanian leader. *Page 6*

MARKETS

STERLING London: \$1.55 (1.59) DM2.94 (same) FF5.525 (9.38) SF2.525 (2.5675) Y221.25 (250) £ index 90.8 (90.5)	DOLLAR The New York markets were closed yesterday for the US Labor Day holiday London: DM1.7455 (1.7485) FF5.93 (5.9375) SF1.533 (1.523) ¥125.7 (125.65) S index 86.6 (86.7) Tokyo close: ¥125.84	STOCK INDICES FT-SE 100: 2,678.8 (+33.9) FT Ordinary: 2,106.3 (+29.0) FT-A All-Share: 1,283.65 (+1.2%) Tokyo: Nikkei: 22,489.01 (+133.14) LONDON MONEY 3-month interbank: closing 10.4% (10.4%) Lifts long gilt future: Dec 94 1/2 (93 1/2)
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NORD/LB
NORDEUTSCHE LANDESBANK
GIROZENTRALE
Hannover Frankfurt am Main London New York

THE SOVIET UNION

Republics agree 'sticking plaster' pact

By John Lloyd and Leyla Boulton in Moscow

THE Soviet Union is no longer anything but the sum of its republics, but the sum of its republics does not exist separately from the combined will of the republics. This is the central thrust of yesterday's proposals for new bodies to run the USSR.

The statement in the name of the Soviet President and of 10 union republics, read by President Nursultan Nazarbayev of Kazakhstan to the Congress of People's Deputies, reflects just this.

There are to be three bodies of "central" power:

- the Council of Representatives of People's Deputies, drawn from the republics, with 20 deputies from each but with no union deputies. This appears to take the place of the Congress of People's Deputies.

- the State Council, composed of the Soviet and republican presidents.

- the Inter-republican Economic Committee, composed of representatives of the republics, presumably economic/finance ministers or prime ministers.

These bodies will handle all matters of concern, both domestic and foreign,

to the participating republics. The body of power is likely to be the State Council, since it will comprise the republics' leaders.

It is not clear how often the Council of Representatives will meet, who will preside over it, what its powers will be and whether or not it can pass legislation.

However, its suggested form, of 20 deputies from each republic, is already arousing anger among Russians who want the size of their republic recognised in voting structure.

Mr Yuri Luchinsky, a deputy from the Russian parliament watching the session, remarked bitterly that Russia would have only 20 representatives against "80 from four corrupt Central Asian states".

On the other hand, all assented to the clause of the declaration which commits the republics to seek an economic agreement.

It is now clear that the republican leaders have fully understood that the fragility of their economies cannot withstand a further severance of links between them.

Mr Sergei Alexeyev, chairman of

the Constitutional Compliance Committee, said the new structures were necessary because "the Union is in a state of collapse". It is in a state of collapse, it is in a state of collapse, it is in a state of collapse.

Mr Egor Gaidar, head of the pro-market Institute for Economic Policy, said in an interview that "this is a temporary agreement, and if it is to be effective it is as a way of trying to ensure supplies in the winter. It is a matter of emergency. It doesn't say anything much about the future of the economic system."

Thus, beyond a common will to preserve something of a national economy, the scope of the agreement is doubtful.

Mr Yuri Shcherbak, the Ukrainian environment minister, made it clear to the congress that Ukraine would support an economic agreement but did not want any part in creating a

constitution "because we will all have constitutions of our own and we don't need a Union one".

Armenia is taking the same position, and may be followed by those republics that have declared independence.

In consequence, there may be few takers for the first article of the declaration, that all republics which wish to will "work out and sign a Treaty of the Union of Sovereign States", even though it is qualified by a clause which says that "each of them will independently determine the form of its participation in the Union".

In nearly all republics, anything smacking of the Union has been discredited, the Communist party which was its guardian has disappeared as an organisation and the tide of nationalism runs strong.

Indeed, Mr Leonid Kravchuk, the Ukrainian president, faces trouble from his Supreme Soviet for having signed the declaration at all.

Mr Gaidar says: "One shouldn't overstate the effect of this agreement. Other republics than the Baltics may print their own currency - like the Ukraine. This will have very serious

consequences for monetary policy."

Nor may it be effective in preventing some republics from creating their own military forces - especially if they feel threatened by their neighbours, as some do.

Both Armenia and Azerbaijan have cause to fear each other, and the Ukrainian leadership has seriously mooted the idea of a national army.

For these reasons, the article which commits the participating republics to sign an agreement on defence "to preserve united armed forces and a military-strategic space" may come under very heavy pressure.

Finally, in asking the Congress to support applications from all republics to become separate members of the United Nations, the way is opened to a host of conflicting foreign policies.

Armenia and Azerbaijan might make opposing claims on the UN for assistance against the other; and if the inter-republican borders become an issue, too could end up in the lap of the UN.

The declaration has put a plaster on the disintegrative process: it cannot cure it.



Lobbying deputies: a woman outside the Kremlin yesterday raises her fist and chants anti-communist slogans

Historic chance to speed up reform and renovation

TEXT of a joint statement by President Mikhail Gorbachev and leaders of 10 Soviet republics read by Kazakhstan President Nursultan Nazarbayev to the Congress of People's Deputies. Russian translation.

I am entrusted by the president and top officials of 10 republics to read out this statement worked out yesterday, during the night and this morning.

As a result of the coup on August 19-21 this year, the process of forming new union relations between the sovereign states broke down. This brought the country to the brink of catastrophe.

The situation that emerged in the country after the coup, if it runs out of control, could bring unpredictable consequences inside the country and in relations with foreign states. We state that the failure of the coup and victory of democratic forces have delivered a serious blow to reactionary forces and to everything that had been hindering the process of democratic change.

Thus an historic chance has been created to speed up reform and renovation of the country. In these conditions, legally elected leaders of the country - the president of the country, presidents and chairmen of the Supreme Soviets (parliaments) of the republics - agree on the following measures for a transitional period until a new constitution is adopted and new organs of power are elected.

These measures will prevent further collapse of structures of power, pending creation of a new political state system of relations between the republics and formation of new inter-republican union structures.

1. All republics which wish to decide upon matters of general principle. Set up a State Council out of the Soviet president and top state officials of the republics to co-ordinate foreign and internal issues, that concern common republican interests. To set up an Inter-republican Economic Committee out of representatives of all the republics on parity basis to co-ordinate management of the economy and co-ordinated conduct of economic reform.

The draft constitution when ready should be considered and approved by republican parliaments and finally approved at a congress of plenipotentiary representatives of union republics.

2. Confirm preservation of the status of all elected people's deputies of the USSR during their elected term.

3. In connection with the Congress to suspend temporarily corresponding articles of the Soviet Constitution.

4. Sign an agreement on defence, on the principles of collective security to preserve united armed forces and military-strategic space, to carry out radical military reforms in the armed forces, KGB, Interior Ministry and prosecutor's office of the USSR, taking into account republican interests.

5. To confirm strict observance of all international agreements and obligations of the Soviet Union, including the question of arms cuts and control as well as foreign economic obligations.

6. To adopt a declaration granting rights and freedoms of citizens irrespective of their nationality, place of residence, party membership or political views, as well as the rights of national minorities.

7. Ask the Congress of People's Deputies of the USSR to support applications of the union republics to the United Nations to recognise them as subjects of international law and to consider their membership in this organisation.

In view of the emergency of the proposed measures dictated by the existing situation, we appeal to the Congress to adopt urgent decisions on these proposals.

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An offer that could hardly be refused

By Leyla Boulton in Moscow

THE BLOW was brutal and swift. In the space of five minutes, the Soviet Union's supreme legislative body made an offer it could hardly refuse. It all started at 10 am when Mr Nursultan Nazarbayev, the president of Kazakhstan, opened the session of the Congress of People's Deputies by announcing that President Mikhail Gorbachev and 19 republican leaders had worked out a plan to save the union. Necessitated by the changes in the country since the abortive coup d'état two weeks earlier, it even provided for a new parliament. Would the deputies please go away, discuss the proposals, come back, put them on the agenda, and approve them? The session would resume at 3 pm.

At the close of Mr Nazarbayev's address, the deputies were quick to blame the leader who three years ago gave the Soviet Union the closest thing it had ever had to a democratically elected parliament: Mikhail Gorbachev.

Gorbachev has signed his own death-warrant. He will become an obedient instrument in the hands of the republics. This shows a full lack of respect for the Congress, exclaimed one furious deputy, Mr Nikolai Korovin.

Deputies were told they could retain their status and, for members of the Supreme Soviet, their pay until their mandates expire in 1994.

Mr Grigory Yavlinsky, a top aide to President Gorbachev, said deputies had no choice but to approve the proposals unless they could come up with a better way to stop the country collapsing.

Whether they were being realistic, or were simply stunned, deputies returned from their break to approve the agenda.

"This is probably [suicide]... but there's no time left," said Colonel Valery Obozov, the conservative deputy chairman of the Supreme Soviet's defence committee.

Radical supporters of Mr Boris Yeltsin, the Russian president, and deputies from the independence-minded republics were delighted. "This is not suicide. They're simply going for a long holiday - ending in retirement," said Mr Vladimir Lukin from the Russian Parliament.

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Unspoken tension: Boris Yeltsin and Mikhail Gorbachev yesterday at the Congress of People's Deputies

Bush stays with Gorbachev

By Lionel Barber in Washington

FOR more than a week, President George Bush has kept the world guessing about when the US would extend full diplomatic recognition to the Baltic states.

Mr Bush's declaration yesterday that the US is ready to open full relations with independent Lithuania, Latvia and Estonia amounts to an historic shift in US policy toward the Soviet Union, a shift which underlines the transfer of power away from the central authorities in Moscow to the individual republics.

Mr Bush and his advisers welcome the dismantling of the old centralised Soviet Union; but they remain worried that the process could spiral out of control. By instinct, they remain committed to dealing with known quantities, notably President Mikhail Gorbachev, and wary of newcomers such as Mr Boris Yeltsin, the Russian president.

On the Baltic issue, Mr Bush has gone to extraordinary lengths to protect Mr Gorbachev's domestic political position. Recognising that an early US move establishing diplomatic relations could undercut the Soviet president's efforts at a post-coup comeback, the White House avoided any move

which could be interpreted as undermining the central authorities in Moscow, encouraging the break-up of the Soviet Union and thereby unleashing a flood of claims to diplomatic recognition by other republics.

The delay was much appreciated by Mr Gorbachev who last week was struggling to ward off attacks during the tumultuous session of the Soviet parliament. However, the US demanded a price: in the end, it would be Mr Gorbachev, not the US, who would explicitly recognise the Baltic states' right to secede from the Soviet Union and claim their independence.

In another deft touch, Mr Bush informed President Vytautas Landsbergis about his plan last week. The Lithuanian president, whose emotional claims to independence have featured regularly on US television over the past two years, suddenly declared that he was prepared to "wait a few days".

The delay allowed Soviet "Black Beret" forces to leave Lithuania, thereby helping to ease US worries that the Baltic states would not be able to control their own territory. It also allowed Mr Gorbachev to make

the final declaration on the Baltic states during an interview with Cable News Network and the new head of Soviet television on Sunday.

Of course, Mr Bush suffered some setbacks at home, with Democrats and "the talking head industry" (the president's latest pet-idea) all accusing him of being timid and tentative. But Mr Bush pointed out playfully, if inaccurately, "when history is written nobody is going to remember that we took 48 hours more than Iceland" to recognise the Baltics.

Once hailed as the tank-top hero of the new Russian revolution, Mr Bush's aides are privately accusing Mr Yeltsin of being "swashbuckling", "headstrong", and "a demagogue" - a reprise of the criticism he faced during his disastrous visit to the US in 1989 where he found himself dismissed as a bottle-swilling maverick.

Mr Brent Scowcroft, who as national security adviser has strong influence over Mr Bush's thinking, summed up the administration's doubts about Mr Yeltsin during a weekend television interview. First he drew a distinction between Mr Yeltsin being dem-

ocratically elected and democratically inclined by temperament; then he raised questions about the Russian president's rapid consolidation of power in the aftermath of the putsch.

"He's one of those unusual charismatic kinds of personalities that do have tremendous power and influence, and it's not clear to what end," said Mr Scowcroft.

The White House position is that, after the coup failed, Mr Yeltsin needlessly antagonised individual republics by hinting that Russia might redraw borders; less seriously, they point out he humiliated Mr Gorbachev before the Soviet parliament and that Mr Bush cannot abide this kind of public display of disrespect.

Mr Bush remains fearful of the unknown and worried that the break-up of the Soviet Union and its impact on the rest of Europe. Given the upheavals in the Soviet leadership, which have seen dozens of familiar (if not always friendly) faces disappear over the past two weeks, this is a natural response. But it is bound to disappoint Mr Yeltsin who is also leading the charge toward change in the Soviet Union.

Mr Ivan Drach, head of the pro-independence movement in Ukraine, said that Mr Kravchuk had no authority to sign the statement and objected particularly to the implication that all-union government structures and armed forces might be preserved. Rukh is part of the parliamentary opposition coalition, the Narodna Rada, which has been growing in strength since the failed coup as MPs defect from the communist bloc - which previously commanded a majority.

Mr Douglas Hurd, the foreign secretary, received a commitment from Mr Boris Pankin, his newly-appointed Soviet counterpart, that Moscow would continue to support in the Security Council the west's efforts to rebuild the

country as it moves to a free market. But it appears unlikely that the bank will act immediately on any strategy towards the country.

The bank will probably use today's meeting as a forum for a general discussion about economic assistance, and put off formulating its strategy over lending to the USSR until a later date.

An official said yesterday that the bank would probably need more time to allow the issue of the split of powers between the centre and the republics in the USSR to be clarified.

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THE SOVIET UNION

Baltic states offer gateway for western investment

Olav Hellebo and Richard Muri propose an economic role for newly independent Estonia, Latvia and Lithuania

THE BALTICS have always been a "window to the west" for the Soviet Union, given their geographical position and traditional links with the Nordic countries. As they start seeking an economic role in a world where they are beginning their political place, it is tempting to see the Baltics as a "window to the east" - a trade bridge between east and west.

The reasons for seeing Latvia, Lithuania and Estonia as a possible "home base" for western companies seeking an entrance into the Soviet Union are clear:

Despite 50 years of Soviet control, the Baltic states produce better goods, with higher productivity than elsewhere in the Union. Labour is cheap and generally well skilled. Within a few years, the three states could also offer a developed infrastructure, complete with international telecommunications, efficient ports and improved roads.

Foreign currency auctions and direct international banking links already offer the basis of a financial services network which could readily be built up through favourable

legislation, improved telecommunications and the indigenous innovation of Baltic bankers.

Moreover, the Baltic people are generally skilled at languages and understand the differing business mentalities of Russia and the west. Baltic mediators could thus offer consulting services, particularly for smaller western companies which would not have the resources to conduct their own market studies in the Soviet Union.

While the Baltic states are willing to shift towards a market economy, a half century of Soviet rule has left its mark. Even given the Baltic states' achievement of real political independence, to win credibility as a bridge from west to east, both business and government need a wholesale change of attitude. The three countries' infrastructure will also need a substantial overhaul.

At present, managers are used to following static central directives rather than reacting to the dynamics of the market. The lack of competition has set a focus on volume production and diminished the importance of the consumer. Furthermore,

overcomplex legislation and the government's lack of service-mindedness have also hindered trade.

The bureaucratic impediments to trading from the Baltics are also complicated by the conflicting legal positions of the republics and the Soviet government. Both Soviet and Baltic authorities, for instance, levy taxes; something which has forced local companies either to pay exorbitantly high taxes or ignore them altogether. Tax collection is difficult to enforce, and some levies are even seen by businesses as legally questionable.

Money is also a problem. Centrally printed roubles are in short supply and bank transfers from the centre are extremely slow. This causes high demand for cash and has forced the Estonian Central Bank to limit cash withdrawals. This has hindered Estonian companies' ability to pay suppliers in the Soviet Union for raw materials, leading in turn to a flourishing illegal barter trade and other questionable trade practices - an environment which western companies are reluctant to enter.

The republics' lack of control

within their own economic territories is also a difficulty - in particular the present inability of the three governments to grant foreign investors proper guarantees.

There would also be physical impediments to the Baltics becoming the nexus of an east-west trade boom. The Baltic states' infrastructure, adequate as it is for present needs, is already working at its limits. Here, though, improvements are already under discussion.

Although international telecommunications are today unreliable and far below European standards, joint ventures between Baltic and Scandinavian groups are already setting up mobile telephone networks.

While the main roads are of a fair standard and able to cope with the present modest traffic load, all roads are two-lane and would quickly become bottlenecks if trade rose significantly. But plans exist to improve road transport by upgrading links with Scandinavia and the European Community, focusing on a "Via Baltica" route linking Scandi-

navia and Finland with central Europe.

A second proposal is to link northern Europe to the rest of the Soviet Union with a privately-financed toll road running from Germany to Leningrad, passing through Odansk, Kaliningrad, Riga and Tallinn.

However, both these projects would be costly and may be difficult to finance. In addition, synchronising the efforts of the governments involved, and the construction time alone, mean such projects can only be foreseen in the longer term.

In the early years of development, therefore, the Baltics would have to rely on sea transport. The Soviet Union has traditionally depended for much of its international trade on the Baltic ports of Klaipeda, Ventspils, Riga and Tallinn. However, the Baltic independence struggle, which has brought into question the ownership of these ports, has led the Soviet authorities to halt development projects. As the ports come unequivocally under Baltic jurisdiction, the republics can then at least oversee their own modernisation and development plans.

Moldova's Russian minority fights back

THE Russian-speaking Dnestr region of Moldova yesterday declared independence from the bulk of the republic which wants close ties with Romania.

It also threatened to cut energy supplies to the rest of the republic from midnight if Moldovan authorities did not release their president, Mr Dmitry Smirnov, held on suspicion of backing the failed coup in Moscow.

About 5,000 people cheered as the red-green Soviet Moldovan flag with hammer and sickle was raised in the centre of Tiraspol, self-proclaimed capital of the "Dnestr Soviet Socialist Republic".

The regional parliament voted to separate from the Romanian-speaking part of the republic, which declared itself independent after the coup.

"The people of Kishinyov (the Moldovan capital) have chosen their path of moving towards Romania. We wish them happiness and all the best, but ask them to recognise our independence," Mr Andrei Manuilov, the region's vice-president, told the crowd.

The crowd chanted repeatedly "Druzba Narodov" (Friendship of the peoples), a slogan much used by communist authorities in the past.

The parliament included a clause in the republic's constitution on Monday allowing Soviet troops and weaponry to be stationed on its territory.

The Moldovan republic is made up largely of regions annexed from Romania during World War II and the Dnestr region, where about 700,000 people live, was settled by Russians in a rapid industrialisation programme. Moldova's moves towards Romania have stirred strong nationalism among Russians who see Moscow as their defender.

Tiraspol's streets were decorated with Soviet Dnestr flags and bunting. Factory militia in camouflage uniforms and armed with rubber truncheons stood at street corners.

Ethnic tensions have run high over the past year in the southern republic of 43m. Dozens have been killed in clashes since Moldova began to break with the central authorities.

Soviet supply line to Kabul dries up

SOVIET food and fuel supplies to Afghanistan appear to have virtually dried up since the political convulsions in the Soviet Union, causing prices in Kabul to soar along with fears about the coming winter.

Amid the rapid Soviet changes it was unclear whether the cuts were due to a policy decision in Moscow or confusion.

Soviet SU-26 transport aircraft still land at Kabul airport but their cargoes are mostly destined to sustain Afghan President Najibullah's war machine in its battle with Islamic Mujahideen guerrillas.

Little appears to be coming down the Salang highway from the Soviet border - the main route across the Hindu Kush mountains for wheat and fuel supplies. Black market prices of petrol and diesel have nearly doubled in recent weeks and transport operators are cutting services. Five litres of petrol cost about 3,500 Afghanis (\$3.50), nearly twice the daily wage of a Kabul labourer.

Quiet welcome for US recognition of Baltics

By Gillian Tett in Vilnius

THE long-awaited US recognition of Baltic independence was welcomed, albeit in a muted fashion, by Lithuanian leaders yesterday.

But in an apparent move to play down the hype surrounding President Bush's statement, Mr Vytautas Landsbergis, president of Lithuania, had earlier unexpectedly flown to Hungary to establish diplomatic ties there.

In Mr Landsbergis's absence, Mr Bronius Kuzmikas, Lithuanian vice-president, commented that he was pleased about the recognition and said the "long-awaited right of independence had now been won".

Earlier, a Lithuanian parliamentary spokesman had denied that Mr Landsbergis's sudden trip to Hungary was timed as a snub to President Bush.

However, his move was unexpected, since he has been content to meet all the other foreign delegations who have

scrambled to establish diplomatic ties with the Baltic states in recent days.

There has been mounting resentment among Lithuanians about the delay in US recognition, and the degree to which President Bush had appeared to be taking his cue from developments in Moscow.

"Why should Mr Landsbergis sit around waiting for Mr Bush, when we don't even know when his statement is coming? He's got other things to do," commented a Lithuanian press spokesman.

However, Mr Landsbergis reiterated this morning that he would welcome US recognition. Speaking during a packed schedule yesterday morning in which he met delegations from Ireland, Canada and Japan, Mr Landsbergis said that the US recognition would provide a "complete and great protection against every possible new aggression".

Mr Landsbergis is accompanied on his trip to Hungary by the foreign ministers of all three Baltic republics. It will provide one of the first opportunities for Baltic leaders since the failed coup to discuss common political and foreign policy issues.

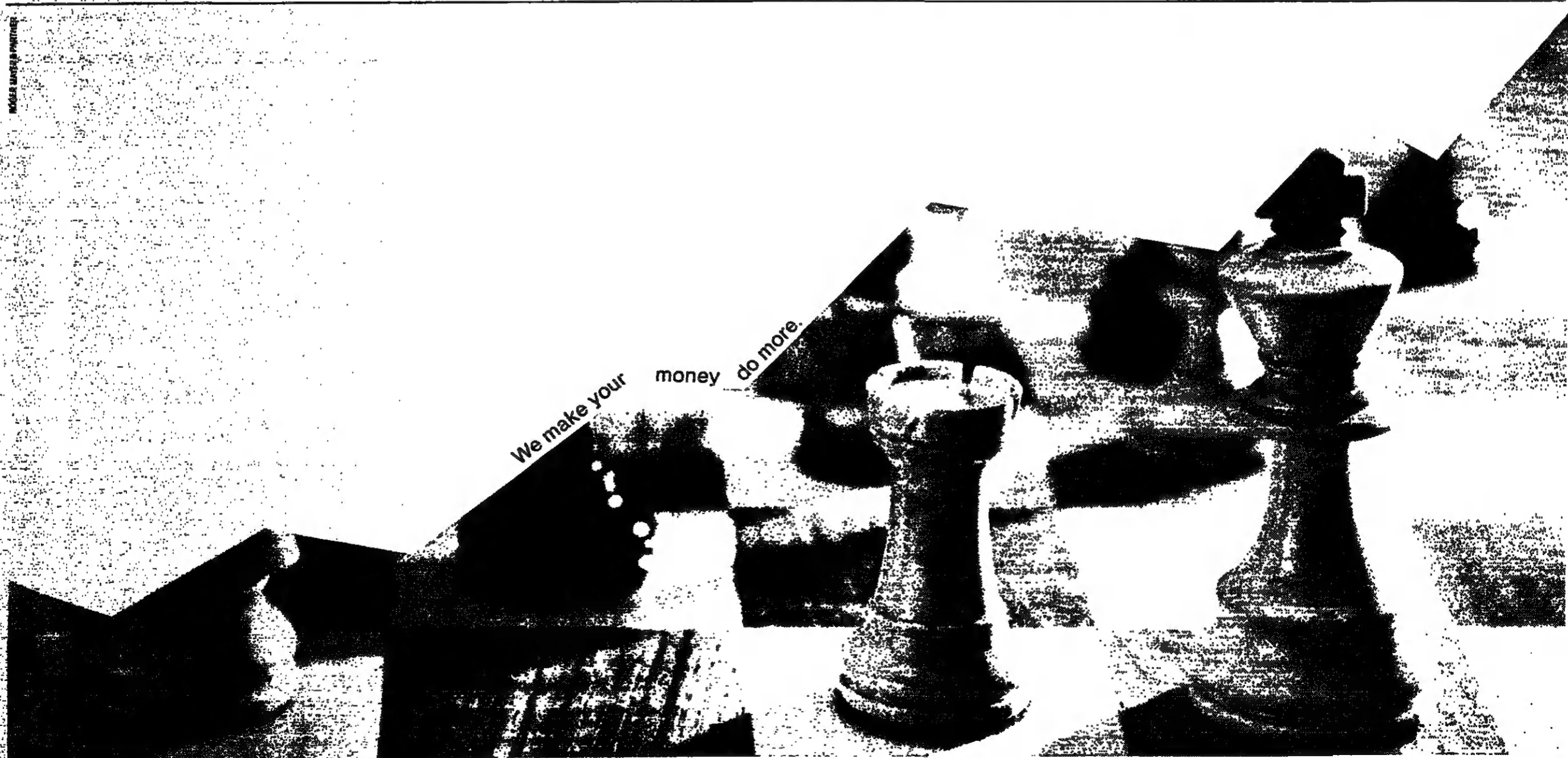
After meeting Mr Jozsef Antal, the Hungarian prime minister, the three Baltic foreign ministers will then go to Vienna for unspecified further business.

There is strong interest in Hungary as a model for economic reform among Lithuanian economists who have as yet been slow to implement any cohesive policy for economic reform in Lithuania.

Meanwhile, in Vilnius confusion remained about the state of negotiations for the withdrawal of the 90,000 Soviet troops stationed in Lithuania. Dispersal of the infamous "Omon" or Black Beret troops is not yet complete.



Latvian President Anatolijs Gorbunov learns of US recognition of his nation's independence



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INTERNATIONAL NEWS

Philippines reaches debt deal with creditor banks

By Stephen Fidler

THE Philippines has reached a rapid agreement with a group of its leading bank creditors on debt restructuring.

The outline agreement, reached in New York after five days of talks between government officials and a 12-bank creditor committee led by Manufacturers Hanover, would allow creditors to exchange loans for concessional bonds or to make new loans to the government. A debt buy-back for cash is also envisaged.

Manila expects funding from the International Monetary Fund, the World Bank, Japan and the US to help support the agreement. These funds will be used as collateral to back the concessional bonds and, if the funding is sufficient, to support a buy-back of debt for cash.

Philippine officials are hopeful

that a final agreement can be concluded with all bank creditors by the end of the year. Mr William Rhodes, vice-chairman of Citicorp, the US bank, described the deal as a good one which "should allow the Philippine government to put the debt crisis behind it".

The Philippines completed a debt package, including a buy-back of \$1.3bn (\$770m) of its debt in January 1990. The latest agreement covers \$5.3bn of medium- and long-term bank debt. The country's total foreign debt is around \$28bn.

The government originally attempted to secure its financing needs through a co-financing loan arranged through the Asian Development Bank (ADB). But the negotiations proved difficult and the government, with the backing of some bank creditors, Philip-

pine legislators and others, eventually decided to seek a comprehensive debt restructuring package, in which the ADB co-financing remains a part.

The US has pledged support for Manila's efforts to manage its foreign debt as part of Washington's attempt to secure ratification of an agreement which would allow the US to keep its military base at Subic Bay.

The Subic Bay agreement is facing tough opposition in the Philippines senate, where a two-thirds majority is required for ratification.

The bank deal may be put in jeopardy if the Subic Bay agreement is not ratified. Bankers also say the Philippines may not be able to meet conditions required by the IMF, which would constitute another risk to the bank deal.



Philippines watch as volcanic mud cascades down the slopes of Mount Pinatubo on Sunday burying low-lying areas of Angeles City

HK seeks to end impasse with China

By Angus Foster in Hong Kong

HONG KONG'S Governor, Sir David Wilson, will meet senior Chinese officials today to discuss new committees being set up as part of the agreement between Britain and China on the colony's new airport.

Hong Kong also hopes the signing of the agreement will lead to progress in the Sino-British joint liaison group (JLG), which is overseeing the details of Hong Kong's return to China and has been seriously held up since the 1989 Tiananmen Square killings.

Hong Kong is keen to use the goodwill created by the airport agreement to break through an impasse at the JLG. On matters such as the establishment of a court of final appeal in Hong Kong, to replace the Privy Council in London, there has been no significant progress for two years.

Sir David is to meet Mr Lin Ping, director of China's Hong Kong and Macao Affairs Office. The two sides will discuss the formation of a special committee under the JLG. The committee will be made up of senior diplomats and officials from the two sides and will also be able to draft in experts.

Britain will use the committee to consult China on all substantial airport contracts, franchises and borrowings which straddle 1997. The committee is to be a channel for communication and consultation and to avoid any further public rows, such as that which threatened the new airport project earlier this year.

Sir David will also discuss the setting up of a consultative committee of 30 to 40 people. This will be made up of Hong Kong citizens and will be able to discuss the new airport project but will not have decision-making power.

Mandela plea on right-wingers

By Philip Gawth in Johannesburg

MR Nelson Mandela, the African National Congress leader, will today urge South African President F.W. de Klerk to release three right-wing hunger strikers so that they can reveal alleged details of their involvement in state-sponsored violence.

Mr Mandela, leader of the ANC, yesterday visited the three men, who belong to the Orde Boersvold organisation, in a Pretoria hospital. The men have not eaten for between 42 and 56 days. He said afterwards: "These men impress me as being very sincere and I am convinced that they have very valuable information to give about the role of the National

Intelligence Service and Military Intelligence who had instructed them to commit some heinous offences."

The hunger strikers have refused to start eating until they are granted indemnity from prosecution for offences they are alleged to have committed. The Indemnity Committee, appointed to advise the government, unanimously found that the offences did not fall within the guidelines for political offences and the cabinet accepted their advice.

The three are being charged with murder and attempted murder. They are alleged to have been involved in a bomb blast at a Pretoria taxi rank in

which 13 people were injured, and in a parcel-bomb attack which killed a man in Durban.

Although Mr Mandela has said he is seeking the men's release on humanitarian grounds, some local observers believe he wishes to establish a precedent which will also allow ANC members who have committed serious crimes to be indemnified.

It is highly ironic that the ANC should be championing the cause of an ultra right-wing organisation, one of whose spokesmen last week sought to justify the taxi blast by pointing to the large number of road accidents caused by black-owned taxis.

Aid aircraft in Sudan blown up

RED CROSS flights to southern Sudan have been halted temporarily after an aircraft carrying relief supplies was destroyed by a mine on the airstrip of the government-held town of Wau.

The crew of the Hercules C-130 transport aircraft survived the explosion, although one member was reported to be critically ill.

The incident occurred yesterday as the Khartoum government lifted a weekend suspension of other relief flights operated by the United Nations. The civil war has claimed at least 600,000 lives since 1983.

Zaire opposition claims dozens killed in protests

A SPOKESMAN for Zaire's leading opposition party said police killed dozens of people in Kinshasa yesterday during demonstrations against the government of President Mobutu Sese Seko. Reuters reports from Brussels.

"There have been dozens of deaths already. That's no exaggeration," Mr Omer N'Kamba, spokesman for the Union for Democracy and Social Progress (UDPS), said.

He said people started erecting barricades in Kinshasa in the morning after Mr Mobutu's government had failed to respond to an opposition ultimatum that a national confer-

ence on democracy must resume work.

Mr Mobutu promised that the conference would chart a path to democracy. But it has met only sporadically because of disputes between the opposition and the government over accrediting delegates.

People in Kinshasa said earlier that rioting broke out and police fired teargas and wielded clubs against hundreds of demonstrators in the Zaire capital's working-class districts. Mr N'Kamba's statement was the first report of deaths during the clashes. He said he received his information by telephone from Kinshasa.

Mideast set for exercise in 'constructive ambiguity'

Participants in the peace process are being urged to accentuate the positive, writes Tony Walker

MR Elhanan Ben-El-Mechaie, chairman of the Israeli parliament's foreign affairs and defence committee, fields a question by way of an old Jewish saying: "Don't ask a rabbi for an answer you won't be pleased to get."

As participants in the proposed Middle East peace process dance cautiously around the extremely sensitive issues involved, they are being urged to avoid for the moment the more obvious sticking points.

The American term for this is "constructive ambiguity". Thus the positive elements are emphasised at the expense of the negative in the hope that the flimsy process can somehow be maintained.

Mr James Baker, the US secretary of state, has accomplished more than most of his predecessors in his efforts to coax and cajole Israel and its Arab neighbours to at least contemplate sitting down together, but even this first step is by no means assured.

The US official has been to the Middle East on shuttle missions six times since the end of the Gulf war and is expected again this month, although Israel yesterday disavowed reports that his visit was on for next week.

He still has quite a lot of work to do, not least in finding a formula to satisfy Palestinian fears about a vulnerable and much-weakened junior partner in any process.

"This is not a fishing expedition," says Ms Hanan Ashrawi, a Palestinian university professor who is among several Palestinians from the occupied territories who have been negotiating with Mr Baker. "You cannot afford too many ambiguities or you will end up dealing with abstractions without substance," she says.

Both the Israelis and Palestinians have set out their own "red lines" for participation in Mr Baker's October peace conference. Israel says no to any involvement of the Palestine Liberation Organisation, no to the participation of Palestinian representatives from East Jerusalem and most emphatically no to a Palestinian state in the West Bank and Gaza Strip as the eventual aim of the process.

Palestinians engaged in talks with Mr Baker insist, on the other hand, on the PLO approving participants in the planned peace gathering. They insist on the status of Jerusalem being addressed and they are adamant that Israel's compliance with United

Nations resolutions requiring its withdrawal from occupied Arab land, including east Jerusalem, be the conference centrepiece.

On the face of it, these apparently mutually exclusive positions do not augur well for the convening of the conference with Palestinian participation. But Mr Baker has shown a certain doggedness in his pursuit of an elusive opening to Middle East peace, and he may yet succeed where others have failed in at least persuading the parties to sit down together, although the issues are so complex and mistrust so deep that ultimate success would be miraculous.

The US official can at least claim at this stage to have secured Israel's and Syria's conditional agreements to attend, along with Egypt and Jordan. The Gulf states, led by Saudi Arabia, would send an observer, which leaves the Palestinians still undecided.

"Constructive ambiguity" is likely to become an overworked phrase in the days ahead as Mr Baker's Middle East team seeks a formula that would persuade the PLO to sanction the par-

ticipation of Palestinian representatives in the process on terms that would not attract an Israeli veto. The task will not prove easy.

The Baker team has been negotiating with both the Israelis and Palestinians on memoranda of understanding or, as the Americans would prefer it, "letters of definition" - non-binding documents that would basically seek to clarify US attitudes to the process ahead of the conference.

The Israelis are pressing for a re-statement of US positions on excluding the PLO, on rejection of a Palestinian state and on the relegation of the UN to the role of "silent partner" at the planned gathering. They are also seeking undertakings that the conference would not be empowered to act as an arbiter of disputes; that its role would be largely ceremonial leading to direct bilateral talks between Israel and its neighbours.

The Palestinians want a clear re-statement of US support for Security Council resolutions 242 and 338 requiring Israeli withdrawal from the occupied territories, from any role included east Jerusalem. They are also pressing for a halt to settlements in the occupied territories. Ms Ash-

rawi warned against a tendency in Palestinian ranks towards "excessive pragmatism". The Palestinians would not be part, she said, of a process that enabled Israel to continue "creating facts" on the ground, adding: "We have no authority to sign away basic rights. These rights belong to future generations."

While she recognised that Palestinians and the PLO had scarcely been in a weaker position, they still retained the right to say no. "You cannot violate the principles or integrity of any negotiating process," she declared. "There shouldn't be coercion or pressure on either side. You have to have certain legal terms of reference."

Mr Ben-El-Mechaie would agree... up to a point. "I'm not in favour of gimmicks," he says. "Either you sit down with genuine intentions to try to secure some kind of agreement, or its just public relations." But the Israeli official made it clear that excluding the PLO, and therefore by definition Palestinians from outside the occupied territories, from any role remained an Israeli priority. "In this land (West of the River Jordan)," he declared, "there is only one landlord."

Israel moves closer to chemicals sell-off

By Hugh Carnegie in Jerusalem

A SENIOR Israeli cabinet committee set up to galvanise the government's hitherto sluggish privatisation efforts has approved the sale of Israel Chemicals, the most profitable state enterprise which has always been regarded as the flagship of the privatisation programme.

The decision by the three-minister committee, headed by Mr Yitzhak Shamir, the prime minister, came as the government was preparing this week to ask the US to guarantee borrowing of \$10bn (\$5.9bn) by Israel on US markets to fund a wave of Soviet Jewish immigration. Bush administration officials and congressmen have made it clear Israel must carry out economic reforms as a price for extra aid.

Privatisation is a central plank of reform but there has been only limited progress since a large-scale sell-off was planned in 1986. A previous move to sell 50 per cent stake in Israel Chemicals worth \$400m to a private group was stopped by the Knesset finance committee, which has a virtual veto over privatisation policy. It objected to foreign takeover of the company.

The prime minister's committee decided instead to sell 25 per cent stake in Israel Chemicals on the Tel Aviv Stock Exchange, with a portion possibly to be floated on foreign exchanges. This is due to be completed this year. Then a "strategic partner" will be sought to buy a 15 per cent stake. The intention is to reduce the state's holding to 20 per cent.

PNG security receives boost

By Emilia Tagaza in Canberra

AUSTRALIA will play a greater role in Papua New Guinea's attempts at regaining investor confidence which has been badly shaken by lawlessness, tribal violence and a succession of uprisings.

After a meeting yesterday in Canberra, Mr Bob Hawke, the Australian prime minister, and Mr Rabbie Namaliu, his PNG counterpart, announced that more of Australia's annual military aid to its former colony, mostly earmarked for external defence, will now go towards overcoming PNG's chronic internal security problems.

Australia is PNG's main supplier of military aid, providing half of its defence budget. Funding has substantially increased in the last two years, rising from A\$27m (£12.5m) in 1988-89 to A\$44m in 1990-91.

A joint statement said internal security was PNG's most pressing problem. It should be given the highest priority if economic development was to proceed.

WORLD TRADE NEWS

Japan aims to set up 10 free trade zones

By Stefan Wagstyl in Tokyo

JAPAN is considering establishing 10 free trade zones, to improve foreign access to its market amid mounting international concern over recent increases in the country's trade surplus.

The plan is the main point of a package of import-boosting measures prepared by the Ministry of International Trade and Industry. The ministry is seeking an 11-fold increase to ¥1.65bn (\$72m) in its annual budget for promoting foreign access.

Miti will have to fight for the funds in competition with other ministries, but the scale of its bid indicates the frictions caused by the recent expansion in the trade surplus. One senior official said: "Import promotion is now the top priority in Miti."

Foreign companies operating in the proposed free-trade zones would be eligible for special treatment on tax and duty and subsidised low-interest loans to pay for construction work.

Miti envisages the zones would be built near airports and ports and would be used for final assembly, repairs and pre-sales checks on products imported into Japan.

The cheap-rate loans would come mainly from the Japan Development Bank and from the Hokkaido-Tohoku Development Corporation, a regional agency. A prime candidate for a foreign-access zone is Chitose Airport in Hokkaido, Japan's

northern island.

The Miti official said among foreign companies' complaints about the difficulty of entering the Japanese market was the cost of starting up and the complexity of import regulations. The foreign access zones addressed both these problems.

Japan's cumulative current account surplus for the first seven months of 1991 was \$33.97bn (£20.2bn), a 94 per cent increase on last year. This includes a sharp rise in the surplus with the EC, caused by a decline of Japanese imports of luxury goods and an increase in exports, principally of cars and machinery to Germany.

The danger of the surpluses harming international relations was emphasised by Mr Dominique Strauss-Kahn, French industry and foreign trade minister, who is visiting Tokyo. At a meeting with Mr Eiichi Nakao, the Miti minister, Mr Strauss-Kahn said Japan should redouble its efforts to correct the bilateral trade imbalance.

● Mrs Margaret Thatcher, the former British prime minister, yesterday called on Japan to take a leading role in bringing stalled Gatt world trade talks to a conclusion, Reuters reports from Tokyo.

Mrs Thatcher arrived in Japan on Sunday for a 10-day visit as guest of the Nippon Telephone and Telegraph Corp. She spoke on Japan's role in the world to more than 2,000 business people.

Peru offers importers a long-delayed field day

Radical trade reforms have jolted a protectionist nation into liberalisation, Sally Bowen reports

INSIDE the forbidding, walls of a former prison in the southern Peruvian city of Arequipa is an Aladdin's cave. Millions of dollars' worth of Japanese electronics, French perfume, Scotch whisky and Swiss chocolates dazzle the long-starved Peruvian consumer.

"Siglo XX" (20th Century) is a shopper's paradise and symbol of the radical foreign trade reforms that have jolted traditionally protectionist Peru into modern-day liberalisation. Peru is adjusting to its biggest trade shake-up for decades. Since the Fujimori administration took office last July, and since Mr Carlos Bologna, the regime's economy minister, got into his stride in March, liberalising decrees have been pouring forth.

Trade liberalisation has been built on swinging tariff cuts. A simplified two-tier system means more than 80 per cent of Peru's imports enter the country at the lower (15 per cent) rate, the rest at 25 per cent. A year ago, many locally-produced goods enjoyed effective protection levels of well over 100 per cent.

The formerly complex

exchange rate system, with "cheap" dollars for favoured sectors which badly distorted local prices, has been unified and freed. Importers and exporters are no longer obliged to negotiate their foreign currency needs through the central bank. Profits may be freely remitted abroad and almost anyone can import anything. Licences and red tape have been slashed. The result is a field day for importers and better-off Peruvians. In Arequipa, agents estimate five times more cars are entering the country from the Chilean free zone of Iquique than six months ago, while electronic goods and domestic appliance imports have increased threefold. Banks report booming business in short-term dollar loans to importers in these fields.

Peru's central reserve bank estimates second-quarter imports stand at about \$820m (\$488m). This could mean that 1991 registers the highest import levels for almost a decade (the high 1981-2 figures were artificially swollen by arms imports). But "the increase is benefiting only a small segment of the popula-



Fujimori: Liberalising

tion," says Mr Luis Guerrero of Comyex, a big Lima trading company. "Basic products are as expensive as ever. Prices keep on rising."

Ministers had hoped a tide of cheap imports would encourage inefficient local manufacturers to lower prices and compete for the first time in decades. So far, there is little sign. Domestic manufacturing industry is heavily decapitated and ill-prepared to compete in a new technological

era. "Rationalisation" of traditionally subsidised public utility tariffs means Peruvian industries now pay the highest electricity, water and fuel charges in the Latin American continent. They must also contend with a basic transport infrastructure which has deteriorated over the past seven years, having been starved of external sources of financing. Terrorism means big add-on costs for businesses; companies reckon 10 per cent of their operating costs go on security.

Most exporters agree the foreign trade reforms have laid the foundations for future growth and international competitiveness. "The scope of the reforms has been broad and positive," says Mr Juan Francisco Raffo, president of the National Exporters Society (SNE). Among the plus points for exporters is the new-found freedom to contract insurance instead of using an inefficient state monopoly and lower tariffs for imported inputs.

Peru's expensive ports are also changing. The breaking of a union monopoly has cut stevedoring costs 15 per cent, while allowing workers to double their wages. Enapu, the ports

PERU TRADE (\$m)		
Year	Imports	Exports
1981	3,802	3,249
1982	3,722	3,293
1983	3,722	3,015
1984	2,140	3,147
1985	1,806	2,976
1986	2,596	2,531
1987	3,182	2,681
1988	2,790	2,261
1989	2,291	2,498
1990	2,085	3,276

Source: Central Reserve Bank

authority, announced 30 per cent cuts in port charges in July. More recently, the need for Peruvian exporters to send at least half their goods in Peruvian flag carriers, has also been eliminated, while attempts are being made to improve the Customs administration.

The downside of liberalisation is the removal of traditional incentives. Certex, a tax-rebate scheme which gave preferential treatment to non-traditional and decentralised exporters, has vanished. The current cash crisis means a substitute tax "drawback" scheme has failed to get off the

ground. But the exporters' principal headache remains the exchange rate. The effects of an over-valued local currency (most exporters calculate the dollar is around 40 per cent of its true parity level) mean "we're starting to see a reduction in export billings in all sectors: mining, fishing and industry," Mr Raffo says.

He is critical of the government's exchange rate management. "It's the IMF's philosophy," he says. "The economy must be stabilised, so we have to screw everybody, including the export sector until we get that done." For most Peruvian exporters, the coming year will be about survival.

The low, export-damaging dollar arises largely from the over-abundant supply of "greenbacks" flooding Peru from the illegal drugs trade, which brings in about \$1bn a year against legal exports around three times that. But for all his short-term pessimism, Mr Raffo hopes "the next 40 years will see a great Latin American trade boom. Peru should be there as a major player. We've pursued about 45 per cent of our aim; only 45 per cent to go."

Taiwan wants trade with Cuba, N Korea

TAIWAN is likely to drop a four-decade ban on direct trade with Cuba and North Korea, the Economics Ministry announced yesterday, Peter Wickenden reports from Taipei.

The move would leave China as the only nation with which Taiwan still declines to trade directly. Taiwanese business-

men, who have invested an estimated \$2bn (£1.1bn) in the Chinese mainland, expect this new ideological trade barrier to fall within two years.

The island's indirect trade with Cuba and North Korea is minuscule.

But Mr Chiang Ping-kun, deputy economics minister, said Cuba imports over \$20bn

of goods a year, is restructuring its economy, and is a member of Gatt, a body Taiwan wants to join. North Korea could absorb some of Taiwan's electronic consumer goods and supply agricultural products and minerals.

Lifting the ban on direct dealings was in line with Taiwan's efforts to liberalise

its trade on a reciprocal basis. Mr Chiang said, indirect trade with North Korea reached \$1.5m last year, while that with Cuba totalled less than \$500,000.

Taiwan is considering partially financing and building an export processing zone in Vietnam, the official Central News Agency said yesterday.

Turkish university deal

BRITAIN yesterday agreed terms for financing a \$67m contract to supply Turkey with university equipment, the first big order signed by a UK company in Turkey for over a year. John Murray-Brown reports from Ankara.

The deal coincided with the visit to Ankara of Mr Tim Sainsbury, UK trade minister. TQ Equipment International will supply equipment to 26 Turkish universities. The contract is backed by a \$22m grant from the UK's Overseas Development Administration. Chartered WestLB, formerly the merchant banking arm of Standard Bank, with Midland Bank, Gulf International of Bahrain, and Standard Chartered Bank will lend the remaining \$44m.

Ceasefire deal may point only to change of tactics by Milosevic

Faint hopes for Yugoslav peace

By Laura Silber in Belgrade

THE ceasefire agreed yesterday by the European Community and the leaders of Yugoslavia may be the first step towards establishing a genuine peace. However, it may also signal a shift in tactics by Mr Slobodan Milosevic, Serbia's president, and one of the main protagonists in the conflict.

The agreement calls for an immediate end to hostilities, demobilisation of Croatia's National Guard, withdrawal of the Yugoslav army to barracks in Croatia, and EC supervision of the ceasefire.

At the ceremonial signing early yesterday morning, Mr Milosevic, who was clearly distressed, reluctantly agreed to a toast only when pressed by Mr Hans van den Broek, the Dutch foreign minister.

Mr Milosevic signed the agreement only after repeated threats of economic sanctions. But he may be confident that international arbitrators will grant his republic the largely Serbian populated territories in Croatia, where Serb militants have taken control. The Croatian government, however, is unlikely to accept any redrawing of its international borders.

Mr Milosevic said the document was only acceptable because leaders of the Serbian minority would be included in the talks. But militants in the



Over 1,000 women who travelled to Brussels from Croatia pleaded at the EC's headquarters yesterday for Community intervention in the fighting

self-proclaimed autonomous regions who are staging the uprising sent a letter yesterday to the European Community denouncing the agreement as "illegitimate" because it excludes their representatives from the negotiations.

Yesterday's letter from the leaders of Serbian militants from the strife-torn regions of Slavonia, Baranja and Krajina serves as a reminder of how

difficult it will be to gain a reconciliation between the warring sides.

Mr van den Broek said: "The EC will send observers to Croatia as soon as the ceasefire comes into effect." The scattered fighting in several towns in Banja, central Croatia, suggested a lasting ceasefire had not yet been achieved.

Croat leaders, who have been seeking the international-

isation of the Yugoslav crisis, appeared pleased that Serbia had bowed to EC pressure to sign the document.

Mr Franjo Tudjman, president of Croatia, warned: "Securing the ceasefire represents the hardest part of the job."

Today, EC foreign ministers are expected to discuss the date and the location of a peace conference to take place in the next two weeks.

Germany calls for EC asylum policy

By Christopher Parkes in Bonn

THE European Community will not be ready to meet its target of scrapping border controls at the end of next year unless it first agrees on a common policy for dealing with the floods of people seeking political asylum in the EC, according to Mr Wolfgang Schäuble, the German interior minister.

No single country could deal with the problem alone, he said in a newspaper interview yesterday. Tension in Germany over the issue has increased sharply in recent days as the

country's political parties prepare to start work today after the summer holidays.

More than 22,000 asylum seekers entered Germany in July alone, bringing the total for the first seven months to 113,000. More than 200,000 are expected before the end of the year, increasing pressure on accommodation and facilities for processing requests for asylum.

The CDU and FDP coalition partners are divided on how to deal with the problem, and the

SPD opposition has been stonewalling resolutely. At issue are the country's unusually liberal laws, which are enshrined in the constitution and have encouraged more than half of those seeking asylum in western Europe to head straight for Germany.

The CDU, senior partner in the government, wants to change the law to deter the many economic refugees claiming "political" asylum, and Mr Theo Waigel, finance minister, yesterday demanded that the

law should be changed this year. He described the FDP's proposals that change should be limited to speeding up processing requests for asylum as "shadow boxing".

The FDP justice minister, Mr Klaus Kinkel, insisted however that "practical measures" to enable requests to be dealt with in 14 days would be enough. Meanwhile, Mr Björn Engholm, chairman of the SPD, insisted his party would not agree to any changes in the law.

French communists face pressure to reform

By William Dawkins in Paris

DIVISIONS in the French Communist party (PCF) have widened, with a plea for "urgent" reforms by nearly a third of its MPs.

The reformers' group, including eight national MPs, has issued a paper condemning a "serious democratic deficit" in the party following the failed Soviet coup. This is the most open example to date of the growing rift between traditionalists and reformers in the party which lay behind its ambiguous response to last month's upheavals in Moscow.

Any sign of ideological change in the Communist party, traditionally loyal to a Stalinist-style creed, is significant to France's minority Socialist government, which relies on the Communists for a majority in parliament. The government's electoral fortunes are linked to the Communists, though Socialists are divided between wanting divorce and a wider marriage with a reformed PCF.

Polish government seeking greater powers

By Christopher Bobinski in Warsaw

THE POLISH government and parliament (Sejm) are on a collision course over the division of powers, with the country's first free elections since the second world war less than two months away.

The government led by Mr Jan Krzysztof Bielecki, which last Saturday won a confidence motion, plans to ask parliament this week for constitutional changes to strengthen its powers in relation to the legislature.

It is refusing to release details of its proposals, but a spokesman said yesterday that

they "make government less exposed in future to votes of no confidence in parliament". They appear to be intended to give the government powers which will remain after the election, in the belief that the new parliamentary political parties will have no clear majorities on which to build a stable cabinet.

At the moment the president proposes a candidate for prime minister for parliament to approve. The premier then puts together a government which has to win parliamentary approval.

Greece plans to organise its crowded skies

Kerin Hope on airspace problems

"Flying into Greek airspace is rather like coming off the motorway and going down a country lane with high hedges blocking the view," says a pilot for an airline operating charter flights to Athens. "It takes some getting used to."

Greek civil aviation officials agree that the country's air traffic control (ATC) system is the most old-fashioned in Europe, with effective radar coverage limited to a 40-mile radius around Athens' Hellenikon airport.

Little has changed since the late 1950s, when a terminal approach radar was installed to handle a rapid increase of flights as the tourist industry developed. Outside its range, Greek air traffic controllers rely on flight information obtained by talking to pilots over a crackly VHF radio link.

Although improvements were periodically discussed, bureaucratic delays and arguments over costs and technical specifications, combined with the Greek Civil Aviation Authority's lack of political clout, kept modernisation of Hellenikon at the bottom of successive governments' infrastructure priorities.

Yet Athens is among Europe's 10 busiest airports. It handled over 11m passengers last year, while the ATC centre logged close to 350,000 passenger flights. More than a third were overflights on routes across the Aegean to the Middle East and the Gulf.

"We should have been integrated with the rest of European airspace years ago. But while the government was delaying, ATC technology advanced, so all the studies had to start over," says Gen Spyros Zezas, deputy governor of the CAA.

Last month the Transport Ministry finally signed a contract with Thomson-CSF, the French electronics maker, for a turnkey project to supply a sophisticated ATC system providing complete radar coverage of Greek airspace, together with digital telecommunications and computerised facilities for information processing and message switching.

Thomson undertook to install both a new approach radar for Hellenikon and the message-switching centre within eight months. At present pilots flying to the Gulf may decide to bypass Greece and take a longer route through Turkish airspace, because of problems in contacting the overloaded Athens message centre to file a flight plan.

By early 1994, a primary radar with a 150-mile radius extending over a large chunk of mainland Greece and the main Aegean islands, will start operating, together with three secondary monopulse radars in different areas which will cover the rest of Greek airspace.

Instead of constantly querying pilots, air traffic controllers will see essential flight information displayed on the radar scope: flight identification, speed, altitude, even a code to indicate that a hijacking has taken place.

"Flight safety will improve enormously with the new system. We have a nerve-wracking time with the radio - if three planes are close together you can get all the pilots talking to

you at the same time," said one controller.

The new system is expected to improve "flow management" - the efficient handling of thousands of aircraft criss-crossing a three-dimensional block of airspace - so markedly that Greece can expect an immediate 30 per cent increase in traffic.

The present Athens system becomes saturated during the peak tourist season because aircraft flying at the same altitude and speed must be kept at least 60 miles apart, to ensure a 10-minute safety margin between flights. With the automated system the separation

The European Community needs a single air traffic control system to cope with an expected doubling of air traffic by the end of the century, EC Transport Commissioner Karel Van Miert said yesterday. Reuter reports from Brussels.

"In the future we must consider reducing the number of control centres in Europe... with the aim of creating a unified, pan-European air traffic management system," he told a seminar on air traffic control in Saint-Paul de Vence, France.

Mr Yiannis Kefaloyannis, the Greek minister for tourism, was sacked yesterday for publicly opposing a government decision allowing construction of luxury hotels close to the coastline, Kerin Hope writes.

He will not be replaced and his portfolio will be merged with the Economy Ministry.

need be only five to 10 miles, according to international civil aviation rules.

The effect, it is hoped, will be a substantial reduction in flight delays, especially for the charter airlines used by most tourists visiting Greece. Procedures on the ground will be speeded up when a new Athens charter terminal and taxiing area is opened next summer, using converted facilities at an adjoining US airbase which closed this year.

The Drbn (\$440m) cost of the new system should be recovered within eight years, since tariffs for flying through Greek airspace will double as soon as it comes into operation, Gen Zezas says.

Airlines will benefit from the increased capacity of Greek airspace under the new system, with considerable savings in fuel as the Aegean air corridors, the most direct route to the Gulf, become more accessible.

By the end of this year, the CAA hopes to have selected a supplier for four approach radars to be installed at Greece's other international airports - Thessaloniki, Heraklion in Crete, Rhodes and Corfu.

Thessaloniki, the main northern Greek business centre, is expected to attract increasing air traffic from Balkan and central European countries, especially now that travel by road and rail through Yugoslavia has shrunk. Growing charter traffic at the three island airports, each of which handles more than 1.5m passengers annually, means delays are now frequent in the summer months.



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AMERICAN NEWS

More Democrats to join poll race

By George Graham in Washington

THE NEXT two weeks are likely to see the US Democratic party's list of presidential candidates for 1992 filled out, as more contenders decide to run. Governor Bill Clinton of Arkansas, Senator Tom Harkin of Iowa and Governor Douglas Wilder of Virginia are among those most widely expected to make an announcement. They will join ex-Senator Paul Tsongas and Mr Larry Agran, the little-known former mayor of a small Californian town, who are so far the only declared candidates for the Democratic nomination. Mr Jerry Brown, former governor of California, is another possible in the race. But the candidate who is generating

the most excitement in the Democratic camp is Senator Bob Kerrey of Nebraska, a war hero with strong views, a ferocious tongue and a string of successes in his brief political career. "Democrats could do worse. Usually do. Probably will. But they should note that Bush's composure sometimes cracks under serious criticism, so a Democrat with Kerrey's bite would have an interesting edge," said Mr George Will, the conservative political commentator, a year ago. Senator Kerrey said last year he would not run for the presidency, but the lack of other candidates has made him rethink.

Should he decide to run, he could throw open a contest that had appeared likely to turn into a duel between Senator Harkin and Governor Clinton. The Iowa senator, a prairie populist who can deliver a rousing campaign speech, represents the traditionalist wing of the party, with strong ties to trade union and civil rights movements and a commitment to activist government. Governor Clinton, at 45 the US's longest-serving governor, belongs to the Democratic Leadership Council, a revisionist wing of the party which wants to get away from the Democrats' "tax and spend" image. He has the backing

of the highly effective fund-raising team which won Governor Michael Dukakis the Democratic nomination in 1988. None of the candidates, however, is widely known outside his home state. "They are not at this point national candidates," said Mr John White, a former chairman of the Democratic National Committee, last week. Mr White said Governor Mario Cuomo of New York or Senator Lloyd Bentsen, the Democrats' vice-presidential candidate in 1988, might change their minds and run. Alternatively, if no contender won a clear lead in the primary elections, the party convention could pick a compromise candidate.

Mexican opposition mayor to be governor

MEXICO'S opposition National Action party (PAN) has been granted the interim governorship of the state of Guanajuato, writes Damian Fraser in Mexico City. Mr Carlos Mendina, PAN mayor of Leon, is only the second opposition leader to govern a Mexican state in the 62 years since the ruling Institutional Revolutionary party was founded. He is likely to remain governor until next year, when elections are due. His appointment follows the resignation of the PRI governor-elect, Mr Ramon Aguilar, last Thursday night. He is thought to have quit at the behest of President Carlos Salinas, who was concerned by fraud accusations.



Noriega: defence claims he was paid more than \$20m

Haiti tensions rise

POLITICAL tension is rising in Haiti as the national assembly prepares today to consider a vote of no confidence against Mr René Préval, the prime minister, writes Canute James. Pro-government demonstrators attacked MPs and surrounded the legislative buildings two weeks ago when the vote against Mr Préval was first considered.

Canadians braced for strikes

By Bernard Simon in Toronto

WITH a postal strike already under way and federal civil servants threatening to walk out later this week, Canada is bracing for the most disruptive labour action in recent years. The disputes, involving two of the public sector's biggest unions, reflect growing pressure on Canadian workers to adjust to a climate of greater fiscal restraint and increasing competitiveness. They also mark a challenge to government efforts to contain wage increases as a means to curtailing inflation. The stoppage by the 45,000-member Canadian Union of

Postal Workers (CUPW) began last week on a "rotating" basis in various cities. Residential deliveries in Toronto and Montreal have stopped, but Canada Post is trying to continue service to businesses, using managers and temporary workers. The strike has been marred by violence and vandalism, including arson, to several temporary letter-sorting facilities set up by Canada Post. About 100,000 members of the Public Service Alliance, which represents a broad cross-section of civil servants, will be in a legal strike position this weekend. The union

has already started some industrial action: customs officers at US crossings threatened to work to rule yesterday. The public servants' union has rejected a government proposal to freeze wages this year, with increases of 3 per cent in 1992 and 1993. While wages are also an issue in the postal dispute, the main point of disagreement stems from Canada Post's strategy of "contracting out" various services to non-union, private suppliers. CUPW has demanded about 2,500 part-time jobs be converted to full-time positions.

Leader of Argentine army mutiny sentenced

AN Argentine civilian court yesterday jailed for an indefinite term the leader of a one-day army mutiny which claimed 13 lives last December, writes John Barham in Buenos Aires. Fourteen other officers were jailed, along with former Col Mohamed Ali Seineldin, receiving sentences ranging from two to 25 years. All were discharged from the army. The officers had been convicted by a military tribunal in January but by law civilian courts are required to confirm military rulings.

The sentences imposed by the civilian federal appeals court were generally more lenient than those handed down by the military tribunal, which had condemned six other officers to life imprisonment. The judges also rejected the prosecution's claim that the mutineers had tried to mount a coup d'état. President Carlos Menem crushed Argentina's fourth army rebellion within 14 hours largely because of the armed forces' overwhelmingly loyal leadership.

Noriega prepares to do battle with US legal Goliath

THE trial of General Manuel Noriega on drug-trafficking charges, which opens in the Miami Federal District Court tomorrow with jury selection, may bring revelations about the roles played by the Central Intelligence Agency, the Drug Enforcement Agency, and the Bank of Credit and Commerce International in Latin American arms and narcotic trade. Then again, it may not. But whether the trial provides a glimpse into the operational side of US intelligence and its alleged links to international crime, or becomes merely a drug-trafficking trial, the prosecution of Gen Noriega, who was at the time of his arrest the *de facto* head of the Panamanian government, marks an extension of the scope the US government claims for its right to enforce domestic law. When Gen Noriega was indicted in Miami in 1988, the government attempted to bring him to trial on charges that he had assisted the Colombian cocaine cartels in shipping drugs to the US. President George Bush launched the invasion of Panama in December 1989, saying the apprehension of Gen Noriega was a key goal. On January 4 1990 the general walked out of the Vatican embassy and was flown to Miami, where he has since been confined. After the invasion, US officials in Panama took journalists on tours of the general's home and pointed out artifacts which they said indicated the general was an admirer of Hitler and a devotee of witchcraft. The defence questioned whether the general could get a fair trial after such publicity. Questions were also raised by domestic critics about whether the government had the right to bring Gen Noriega to trial in the US. But the general's lawyers were unable to convince Federal District Judge William Hoeveler, in whose court the general's case is being heard, that their client had been improperly arrested, that his rights had been violated, or that the US had used excessive force in his capture. Those were just the first of a spate of issues the judge has had to decide in the 18 months since Gen Noriega's arrival in Florida. The judge had to broker a complicated international legal arrangement to persuade European bankers to release funds from Gen Noriega's frozen accounts so he could pay his lawyers. He also had to rule on complex issues involving allegations of government impropriety in listening in to the prisoner's telephone conversations with his lawyers. But the main pre-trial battle between the government and defence, carried on largely behind closed doors, has been a struggle over the scope of evi-

dence the defence will be allowed to present. The defence team, led by Mr Frank Rubino, has sought to force the release of large numbers of classified documents which they allege will show that whatever Gen Noriega did for or with narcotics traffickers was part of an overall relationship he had with US intelligence agencies. The defence argues that Gen Noriega was so valuable to the agencies that they paid him more than \$20m (\$11.5m). The government has acknowledged Gen Noriega was on the payroll of intelligence agencies, but they say he received less than the defence alleges. The defence has also filed documents alleging that Gen Noriega allowed illegal weapons shipments through Panama at the behest of seven directors of the CIA, including now-President George Bush. The defence has said it expects to subpoena Mr Bush to testify during the trial. Judge Hoeveler has issued sealed orders for the release to the defence of classified documents which the defence says will show the depth of the relationship between the general and US intelligence agencies. Government attorneys deny the judge's rulings will put the relationship between the general and the intelligence community on trial. The general's case may also find a place in the BCCI scandal. The general maintained accounts with the bank, and the government of Panama charged in a lawsuit filed in Miami last month that BCCI assisted Gen Noriega in laundering funds earned from trafficking payoffs. Earlier this month the Washington Post newspaper quoted US investigators as saying Colombian drug cartels had moved nearly \$1bn in drug profits through BCCI, mainly through branches in Panama, while the bank enjoyed the protection of Gen Noriega. Documents the government has turned over to the defence team, including Gen Noriega's BCCI account records, indicate that part of the prosecution strategy will be to focus on sources of his wealth. The trial will resemble a David and Goliath struggle. The defence team is made up of Mr Rubino, Mr Jon May and a small staff of investigators and aides. The government is believed to have deployed at least 20 lawyers. In addition to members of the Miami Attorney-General's office, special prosecuting staff has been sent from Washington.

Chile launches scheme to modernise infrastructure

PRESIDENT Patricio Aylwin of Chile has launched a public works programme to ensure his country's export-driven growth is not stifled by lack of ports, airports, roads and railways, writes Leslie Crawford in Santiago. In a nationwide broadcast at the weekend, Mr Aylwin said his government would spend \$2.55bn (\$1.35bn) - about 9 per cent of GDP - over the next three years to modernise Chile's infrastructure. This was in such a state of neglect, he said, that it was obstructing economic development. Earthquake damage to docks

in Valparaiso and San Antonio six years ago had not yet been repaired and there were not enough roads to carry Chile's forestry exports to ports. The president announced that Santiago, home to 5m people, would get its first sewage treatment plant, and construction of a new underground line would begin in 1993. A new passenger terminal will reduce congestion at Santiago's tiny airport. Chile's railways, which still use rolling stock built in the 1920s, will be modernised and freight services will be privatised. Almost 1,000km of roads will be tarred.

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UK NEWS

Secret £4m fee prompts call for bid disclosure

By Norma Cohen, Investments Correspondent

A SECRET agreement which required the winning company in a bitterly contested takeover bid last year to pay its target's merchant bank nearly £4m has prompted the Bank of England to call for full disclosure of fees paid to merger and acquisition advisers.

The Bank's decision to ask the Takeover Panel and accounting regulatory bodies to consider requiring full disclosure followed the acrimonious £1.1bn bid for Globe Investment Trust by CIN Management, British Coal's pension fund.

It has now emerged that Globe struck a deal with its main defence adviser, Baring Brothers, which required CIN to pay nearly £4m to Baring once the deal was completed.

Terms of the deal were said to have required higher payment to Baring if it was successful in inducing CIN to raise its initial offer - which it did.

CIN, which learned of the deal only after it won the bid, later argued in private hear-

ings before the Takeover Panel that Globe's payments to Baring were contingent liabilities which should have been disclosed during the bid.

One Bank of England official said yesterday: "Vast sums of money are being spent on shareholders' behalf. Why shouldn't they know this information?"

The Bank has also supported recent efforts by institutional investors to force companies to disclose more information and to play a greater role in their management.

CIN declined publicly to discuss any payments made to Globe's advisers.

But Mr Barry Southcott, CIN's managing director, said he favoured disclosure of fees in takeover battles because "it might make companies think twice about what they agree to. It would also make shareholders aware of how their money is spent".

In addition to the Takeover Panel, the Bank has approached the Financial

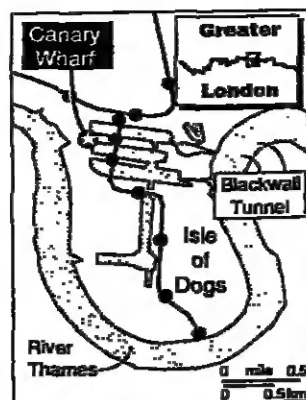
Reporting Council and the Accounting Standards Board. Discussions with the accounting bodies are expected to continue for some time before any decision is reached.

The Panel, however, is said to have told the Bank that it does not believe the matter is one which should be addressed in the Takeover Code.

For one thing, the Panel argues that the structure of investment bank advisory fees are often dependent on the outcome of the takeover and are not easily quantifiable until the deal is either completed or abandoned.

The Takeover Code, which regulates the conduct of mergers and acquisitions, is silent at present on fee disclosure unless securities are to be issued in connection with a cash payment to shareholders.

The accounting bodies, however, could take the view that such fees are contingent liabilities and that disclosure of how fees are to be computed must be disclosed during a bid.



Heat and dust raises tempers in Docklands

By Andrew Jack

THE LONDON Docklands Development Corporation and Olympia and York, property developers, yesterday rejected claims that they were liable for disruption to the lives of local residents during construction of the Canary Wharf complex in east London over the past five years.

Mr Eric Sorensen, chief executive of LDDC, said that some disruption was necessary to bring new jobs and businesses to the area. Olympia and York, the developer of the 800ft Canary Wharf tower, said it was confident it had no legal liability and would contest any proceedings.

The reaction follows a letter from solicitors representing more than 25 Docklands residents last Friday that they intend to file for damages against LDDC and Olympia and York for noise and dust from building works and interference with television reception over the past five years.

Mr Martyn Day, a partner in the firm Leigh Day and Company, wrote to the two organisations on behalf of Splash, South Poplar and Limehouse Action for Safe Housing, an umbrella group representing local tenants' associations. He filed legal aid applications for them on the same day.

He estimated that the 10,000 local residents had fair grounds for filing claims of nuisance and asserted health problems against the two bodies, which might be worth an average of £10,000 for each claimant.

TUC IN GLASGOW

By David Goodhart

BRITISH trade unions yesterday signalled their readiness to embrace a more codified, continental, system of industrial relations incorporating tight legal restrictions and positive rights for employees.

In a debate at the TUC congress in Glasgow Mr John Edmonds, leader of the GMB, said that Britain's "eccentric labour relations set-up" had failed and the future now lay with the continental system based on "roundtable discussion in works councils and enterprise committees".

The unions' first serious attempt to set the industrial relations agenda for a decade came on the same day as a

barrage of attacks on Labour party-union links from Mr Michael Howard, the employment secretary, who said that "the unions' footprint is on every aspect of Labour policy". He also criticised the congress's decision to boycott Employment Action, designed to give training and work experience to 30,000 unemployed people.

In the debate on the unions and Europe Mr Edmonds said that the continental model was coming whether people liked it or not and "we are about to be overtaken by a revolution which will sweep away almost every feature of the British industrial relations system."

Anyone who doubts the trend should buy a ticket to Brussels, they are not thinking in British terms.

The British unions have long supported EC social legislation but it is only recently that traditional hostility to the more legally restrictive continental model has faded.

The unions believe that as they now suffer continental-style legal restrictions, with no prospect of repealing them, they should at least enjoy continental rights. Mr Tony Blair, the opposition employment spokesman, said yesterday that a Labour government would act swiftly to introduce a package of positive rights for

employees.

The motion passed called only for an examination of how features of the "Franco-German" approach to industrial relations, such as works councils and greater rights to information, might be adapted to British circumstances.

There are still some reservations about adapting other countries' systems to Britain but many senior union officials now believe that Britain could have a version of the works council system within five years.

Even left-wing unions believe that a works council system is inevitable.

Tradition is ready to be buried

David Goodhart on how German industrial practices may be adopted

THE growing body of opinion within Britain's union elite wants to bury 100 years of Anglo-Saxon trade union tradition in the name of continental European consensus.

The "voluntarist" model which kept the law out of worker-management relations, and the conflict in, have proved of little benefit to workers of the past decade and has, in any case, been partly undermined by the Conservative employment laws.

Those legal restrictions are here to stay, even under a Labour government, so why should British workers not also receive the benefits of the more codified continental system?

British trade unions have been casting envious glances at Continental, and especially German, industrial relations for many years. But now, for the first time since the abortive industrial democracy debate of the 1970s, British unions are actually examining whether, for example, elections to work councils can be adapted to Britain's multi-union plants.

Supporters of the German model, led by Mr John Edmonds of the GMB, still have many people to convince even within their own ranks. Hostility to that model has been based not only on the perceived restrictions, such as

legally binding agreements or severe restraints on strike action, but also on the fact that positive rights and institutions, such as works councils, are provided for employees and not unions.

Left wing unions such as the Transport and General Workers Union, and even some lead-

broadly they fear granting rights at work which make trade union organisation superfluous; few union officials want to put themselves out of a job.

The election of a Labour government would increase the likelihood of a package of positive rights for employees, although first priority might be given to a new law on union recognition.

There was scarcely a mention of European style participation and information rights in Labour's long policy review but Mr Tony Blair, employment spokesman, is a supporter and says legislation on employee rights will be a Labour government priority.

Mr Blair, like Mr Edmonds, sees improved consultation rights running parallel with a reform of Britain's anarchic and decentralised wage bargaining system.

One of the strengths of the German system is that bargaining, and the conflicts it creates, take place outside individual plants at regional or national level. Works councils in plants have considerable powers of veto and can decide how to apply locally the bargaining results reached nationally, but they cannot call strikes.

Supporters of the German model argue that some version of the system will be imposed in any case by the EC. The two

proposals for worker participation, one associated with the EC company statute, the other with the social action programme, are currently being held up by British objections but will eventually be established in some form.

Also, although transnational bargaining remains in its infancy, even in the EC, an increasing number of British union officials are involved in European works councils, many of them encouraged by multi-national companies.

But it is the irreversible decline of traditional trade unionism and the weakness of organised labour in growth sectors which may, paradoxically, be the best argument for more employee power. Introducing the German model a decade ago would have led to its abuse by still adversarial unions and would have blocked necessary restructuring.

The more modest unions of today are now ready for "social partnership" because they know that otherwise they will virtually disappear. Employees will not be so keen.

As Mr Edmonds points out, the consensus system in Germany is fully supported by employers in order to avoid competing over the price of labour. "But unfortunately in Britain reducing the price of labour is the only thing they do compete on," he says.

LONDON STOCK EXCHANGE

Governing board restructured

By Richard Waters

THE long-expected overhaul of the London Stock Exchange's governing board was unveiled yesterday, as 14 proposed new directors for the market were named.

The new directors, bringing senior figures from industry and commerce onto the exchange's governing body for the first time, is part of the attempt by Mr Andrew Hugh Smith, chairman, and Mr Peter Rawlinson, chief executive, to transform the organisation from a club into a more effective commercial enterprise.

All 14 of the proposed directors, along with 11 representatives from the exchange's now-defunct governing council, will face election to the market's new board at an extraordinary general meeting in October.

Three chairmen of public companies have accepted invitations to stand as directors: Lord Alexander of Weedon, chairman of National Westminster Bank; Mr Anthony Tennant, chairman of Guinness;



Lord Alexander

and Mr Ian MacPherson, chairman of Low & Bonar.

They are joined by two fund managers, Mr Donald Brydon, chairman of BZW Asset Management, and Mr John Webster, managing director of Sun Life Asset Management, who is a current council member.

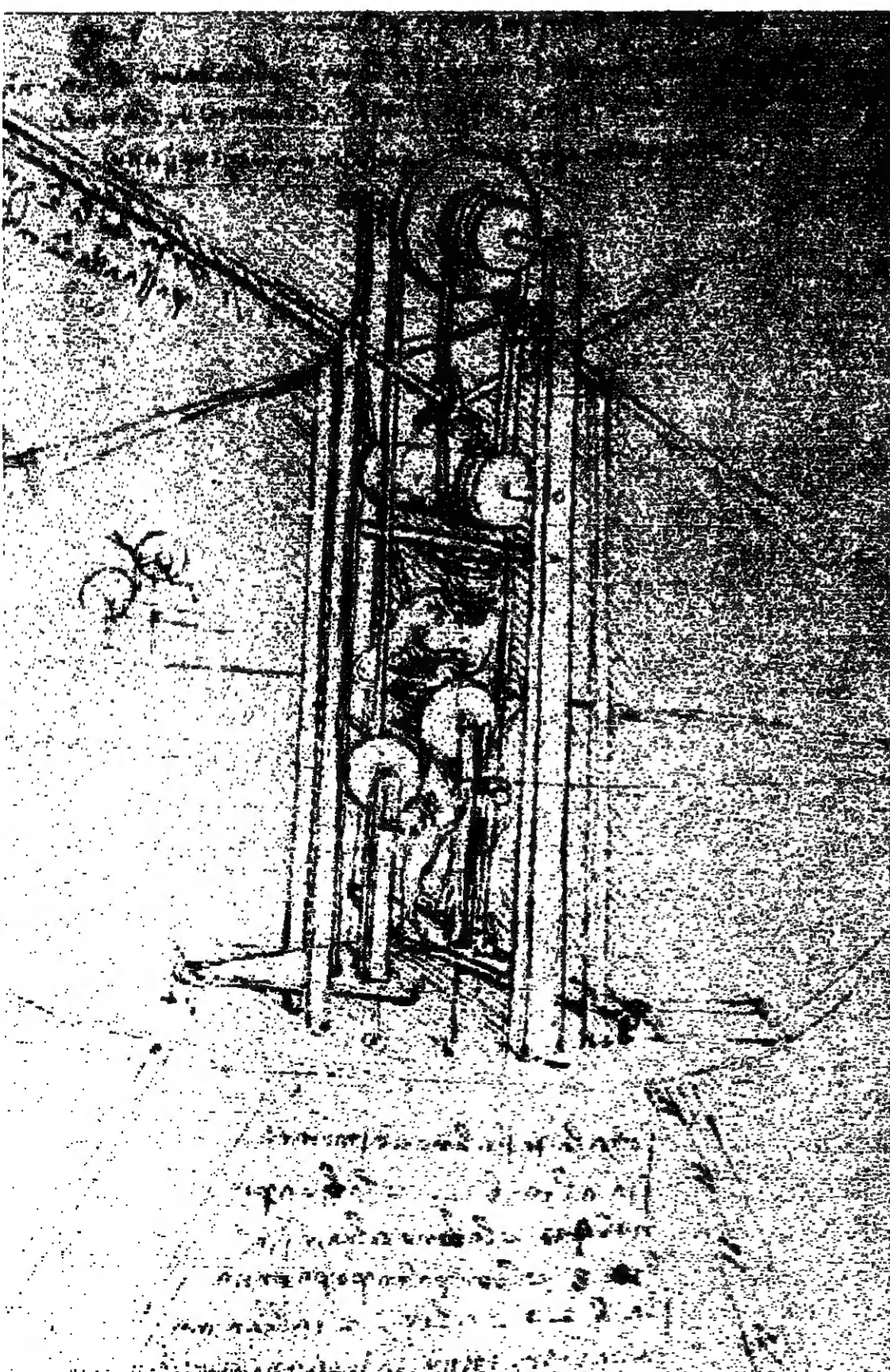
The list of new names also contains some of the most powerful figures in the London securities markets. From UK-based houses, those up for election include: Mr John Kemp-Welch, senior partner of Cazenove; Sir Michael Richardson, chairman of Smith New Court; and Mr Peter Wilmot-Sitwell, chairman of Warburg Securities. Foreign houses are represented by Mr Rudolf Mueller, chairman and chief executive of UBS Phillips & Drew, and Mr Koichi Kame, the new chairman of Nomura International.

The proposed new directors will replace 19 council members who stood down. Most were less senior in their companies and put a considerable amount of time into the exchange, including attending monthly council meetings and sitting on exchange committees. New board members, who will be paid £12,500 a year, will attend board meetings once every six weeks, and new audit and remuneration committees will be drawn from them.



Bill Jordan

ing TUC officials, still have reservations about establishing channels which might compete with trade union ones and strongly oppose the management dominated Franco-Japanese company councils. More



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UK NEWS

MOTOR INDUSTRY

Group Lotus cuts jobs after poor US forecast

By Kevin Dore, Motor Industry Correspondent

GROUP Lotus, the UK sports car maker which is a subsidiary of General Motors of the US, is cutting the workforce of its car operations by a third following a big drop in forecast sales in America.

Lotus Cars, the loss-making car division, is reducing the size of its US distribution operations in Atlanta, Georgia, although Mr Michael Kimberley, Group Lotus chief executive, insisted that the company was committed to staying in the American market. It is also reducing its workforce at Hethel, Norfolk, from 900 to around 600.

The job cuts at the car division will reduce the total workforce of Group Lotus, which also acts as an automotive consultancy, from 1,755 to some 1,450.

The operations of Lotus Engineering and the company's Millbrook proving ground will not be affected.

The job cuts follow similar severe workforce reductions at Jaguar and Rolls-Royce Motor Cars, the UK luxury car makers, which have also been hit hard by sharply falling sales in America.

Lotus had forecast a big jump in car output helped by

the launch of its Elan sports car in the US early this year. It had expected sales of around 950 Elans in the US in the whole of 1991, but sales are now likely to total no more than 350.

Lotus car output for 1991 is being cut to 2,700 from the 3,280 envisaged at the beginning of the year. Production is expected to fall further to 2,350 in 1992. (In addition, Lotus produces around 500 units a year of the Lotus Omega/Carillon, the high performance saloon car, for General Motors in Europe).

Lotus car output this year

will still be around 35 per cent higher than the 1,997 achieved in 1990, helped by the success of the Elan in other markets - it was launched in the UK in spring last year - but the plunge in expected demand in the US has dented the specialist car maker's ambitions. Daily production of the Elan is being cut by a third from 12 to 8.

Mr Kimberley said that Lotus had expected to derive around a third of its car sales from North America, a third from Europe and a third from the Far East, but it had been forced to reduce sharply its

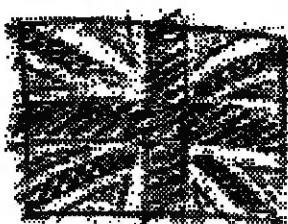
planned volumes in the US.

It was essential to take "appropriate and prudent action" to protect the company's "core operations."

He said it was planned that the car division would return to profit in 1992 and the group would also be profitable overall in 1992.

Group Lotus made a pre-tax loss of \$4.4m on a turnover of \$53.1m in 1989 after writing off \$9.4m research and development expenditure for the Elan, the company's most important new product launch in 15 years.

BRITAIN IN BRIEF



Directors aim for risk management

Most financial directors regard the prime aim of their treasury management duties as being to minimise risks rather than to maximise returns, according to a survey commissioned by the Bank of England and the clearing banks.

Two thirds of financial directors who participated in the survey opted for a risk-averse strategy with less than one third believing that their role was to maximise returns. A total of 212 directors took part in the poll of a sample of the largest 750 UK quoted companies.

Rejection of new consensus

Suggestions of a new political consensus were rejected in Crossbow, the quarterly magazine of the Bow Group, the independent Conservative think-tank. The magazine claims that the new agenda shaped by Mr John Major, the prime minister, with increasing emphasis on "quality of life" issues such as education and the Citizen's Charter has highlighted even further the gulf between Labour and the Conservatives.

Cardiff-Paris air service

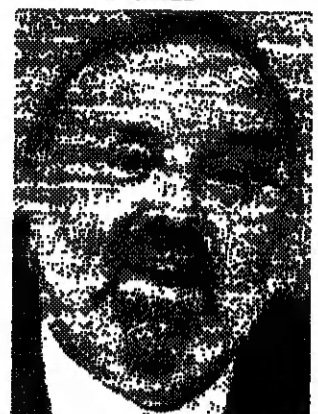
Manx Airlines is to begin a twice-daily flight between Cardiff and Paris on October 28 using a 16-seater aircraft. Air France already operates a daily connection with a larger aircraft between the two capitals but its timing, leaving Paris at 1.45pm and returning from Cardiff at 3.15, is thought to have restricted demand.

especially from businessmen. Manx has scheduled its Monday-Friday flights much more closely to the needs of the business community. The morning flight will leave Cardiff at 6.45am and return at 10.10. An afternoon service will leave Wales at 4.05pm and return from Paris at 7.30.

Bus maker wins large order

Walter Alexander, the Scottish bus maker, has won an order for 265 buses from Stagecoach, which it claims is the biggest order to be announced in the bus industry for several years. The 41-seat buses, described as mid-buses, will be delivered over the next two years. The contract includes an option for 100 more of the buses. The total order is worth between £5m and £6m.

Call for pay rise block



The opposition Labour party reiterated its call for the government to use its remaining 40 per cent stake in the two recently privatised electricity generating companies to block proposed remuneration rises. The government should "exercise its powers" at the annual general meetings of companies which remain partly under its control, according to Mr Frank Dobson, energy spokesman (pictured above). The annual meetings of both National Power and PowerGen occur later this month.

Payment system 'breakthrough'

International companies will be able to exchange payments and remittance advice electronically under Edipay, a new sys-

tem introduced by Bank of Scotland with General Electric Information Services.

Mr Ian Farquharson, senior manager at Bank of Scotland, said that the new system, which will send payments through Swift, the international automatic bank payment system, and remittance advice through General Electric's information network, would be a breakthrough for many companies.

The system will enable companies to exchange payment directly through their computers just as they pass details of products, prices, deliveries, and invoices.

House prices fall by 1%

House prices fell by one per cent last month and are now back to the same level as last October, Nationwide Building Society has said. The society said it was the second month in succession that average prices had fallen nationally. This followed modest price increases in May and June. Nationwide's said "the small fall over the past two months fits into this year's pattern of marginal up and down movements in house prices".

Radio dispute intensifies

The dispute between the commercial radio industry and PPL, the copyright body, intensified as PPL released details of its proposed new scale of charges. The charges for the right to play records on the UK's commercial stations would range from less than 1 per cent for a small radio station playing hardly any music to a top rate of 30 per cent for a large station playing nothing else but music. The issue goes before the Copyright Tribunal for arbitration next year. The Association of Independent Radio Contractors has offered to pay a flat fee of 3.5 per cent of revenue.

Fine for food poisoning

A food company which sold hazelnut puree causing an outbreak of botulism food poisoning has been fined £3,000. One woman died in the outbreak. In 1989, and another 27 people were made ill. Young's Fruits of Folkestone, Kent, pleaded guilty to selling puree unfit for human consumption.

HONG KONG

Indonesian group may buy division

By Angus Foster

HONG KONG yesterday moved a step closer to securing a buyer for the local arm of BCCI when the government's provisional liquidator signed conditional heads of agreement with the Hongkong Chinese Bank, part of the Lippo group from Indonesia.

The agreement, which amounts to a serious statement of intent, is dependent on a number of legal conditions being met. It will also require approval from the courts and Hong Kong's banking regulators.

The Hongkong Chinese Bank also needs to secure agreement from large depositors not to withdraw all deposits. The provisional liquidator is seeking a



guarantee from the Abu Dhabi government to cover any unrecorded liabilities.

Abu Dhabi has indicated that it could provide a guarantee, but its terms are not yet satisfactory to Hong Kong.

WORLD ROUND UP

Former US envoy admits loan was waived

MR Andrew Young, the former US representative to the United Nations and mayor of Atlanta, has acknowledged that BCCI last year forgave a \$150,000 debt owed by his consulting firm, George Graham in Washington writes.

Mr Young told the New York Times that he regarded the debt forgiveness as belated payment of a retainer fee he had been promised by BCCI.

Although there is no suggestion that the loan forgiveness was in any way illegal, the relationship with BCCI has proved embarrassing to Mr

Young and to other Carter administration officials. PANAMA: The Panamanian government yesterday launched a fresh High Court action in London in its battle for the return of a fortune it claims was amassed by the country's toppled ruler General Manuel Noriega, who goes on trial on drugs charges in Miami this week.

Mr Justice Mummery heard that the latest asset-freezing move, involving US\$2m, was made after recent newspaper allegations relating to the collapse of BCCI.

Mr John McDonnell QC, for the Republic of Panama, said it claimed that money was secreted by General Noriega through various BCCI bodies.

The Panamanian government said it was beneficial owner of the \$23m paid into a London branch in September 1988 for the account of Finley International, a London company. The judge granted the Panamanian government injunctions restraining a number of defendants from disposing of the sum pending a further hearing on Thursday when all the parties involved

can be represented. The injunctions were against General Noriega's wife Felicidad, Finley International, Capcom Financial Services, a brokerage firm, and Mr Syed Ziauddin Ali Akbar, former head of BCCI's treasury department.

JORDAN: The country's central bank has delayed a decision on selling three branches of BCCI until necessary legal action has been completed. Banking sources said the authorities might be seeking court approval for the liquidation and sale of BCCI's assets in Jordan.

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TECHNOLOGY



In the third article of a series looking at public spending on research and development throughout the world, Stefan Wagstyl examines why Japan's state-funded sector lags so far behind its commercial counterpart

Researchers at Tokyo university are crowded into crumbling buildings surrounded by unkempt grounds littered with piles of rubbish. There is so little room that some scientists conduct their experiments in the corridors. It is hard to believe that this is Japan's most prestigious seat of learning — that a nation which values technology so highly can show so little respect for the scientific research which makes technological advance possible. Japan's total research and development spending is the highest in the world as a proportion of national output (2.9 per cent of gross national product). But the poverty of state-funded Tokyo university is a startling example of how little the government contributes to the total. The public R&D budget amounts to just 0.5 per cent of GNP, compared with about 1 per cent for other industrialised countries.

Moreover, Japanese scientists argue that their government's contribution to the advance of science is even smaller than the figures suggest. They say money is wasted because it is divided between too many ministries and too many research centres, including more than 400 universities. Given Japan's economic success, it is tempting to conclude that the level of government-funded R&D is irrelevant to the development of technological-advanced industries. But that argument ignores the extent to which Japan has borrowed wholesale from the scientific research of other countries, much of it done in state-funded universities. Transistors, semiconductors, and lasers — virtually all the products on which the success of the world-beating Japanese electronics industry is based — come from discoveries made in western laboratories.

Also, very little of Japan's R&D budget goes into defence — in sharp contrast to the US and the UK. But Japan benefits from western defence technology — both in the products it buys and in the products used by US forces stationed in Japan.

The Japanese themselves recognise that since their nation is now a world-class economic power they must in future share the cost of advancing the frontiers of science. To achieve this, Japan will have to put more resources into basic science as well as continuing to invest in applied scientific research.

The question is how? Will the public contribution to R&D be increased or will companies have to shoulder most of the burden themselves?

If the recent past is any guide, companies are likely to expand basic research more quickly than the government. In the past decade, total research spending has doubled; in the year to March 1990,

spending amounted to ¥14,000bn (\$61bn). But total research spending has risen so fast that the proportion of basic research has fallen from about 30 per cent to less than 13 per cent.

This decline has gone hand in hand with the steady eclipse of government R&D spending, which has fallen as a share of the national total from about 30 per cent in 1980 to less than 20 per cent.

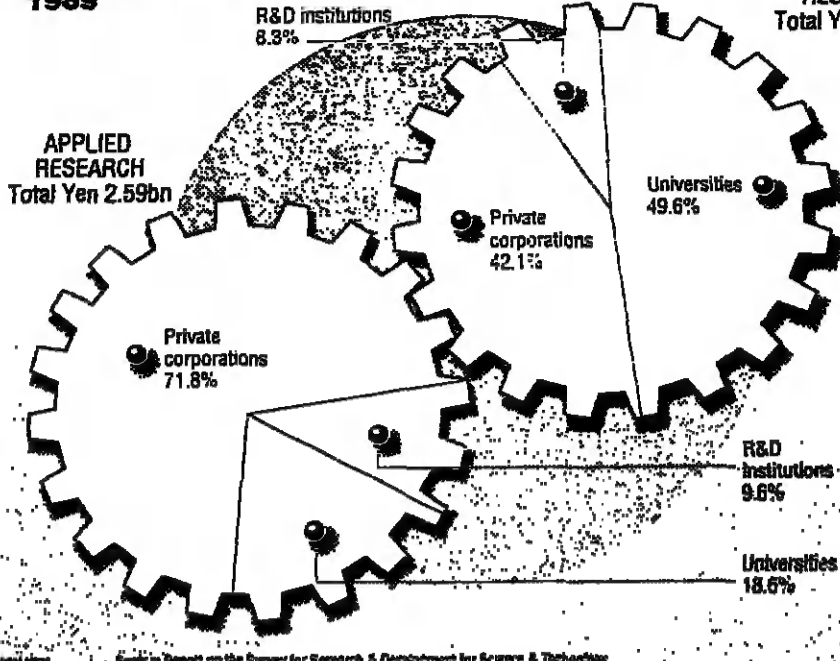
Leading companies pride themselves in the investments made in pure research. Some 200 corporate research laboratories have opened in the past 10 years. Among them is Hitachi's advanced research laboratory, a gleaming white building set in green hills north of Tokyo, and home to Akira Tonomura, world-renowned for work with electron microscopes.

"We have to make our contribution to science," says Tonomura, citing Bell Laboratories of the US as an example of a corporate research centre with a record of excellence which most universities would envy. But other scientists doubt whether Japan can rely on commercial laboratories alone to advance into fundamental research. Junichi Nishizawa, president of Tohoku university in northern Japan and widely known as the father of the Japanese semiconductor industry, says fundamental research has to be done in universities or in non-profit institutions.

"For a Japanese company doing something which would not contribute to profits would be to betray the company," says Nishizawa. "The purpose of all these corporate laboratories is to attract good graduates into the company. They are allowed to work in the laboratories for a while then are sent to factories." Nishizawa says Tonomura, an acknowledged potential Nobel prize winner, is an exception. Other scientists agree these pale in comparison with the problems in the public sector. They believe the public bud-

Public paucity in the land of plenty

Japanese R&D expenditure 1989



Source: Ministry of Science and Technology, Survey for Research and Development for Science & Technology

BASIC RESEARCH Total Yen 1.45bn

mental research schemes, including a ¥110bn (\$480m) synchrotron, a 1.5km-long machine which will be the biggest in the world when it is finished in 1993, and which will be used in the production of semiconductors.

Scientists say much money is wasted by dividing funds among too many recipients. The Ministry of Education gets the largest share, 45 per cent, followed by 25 per cent for the Science and Technology ministry and 10 per cent for the Ministry of International Trade and Industry.

The Ministry of Education cannot target projects because it is obliged to distribute funds among some 400 universities. To make matters worse, professors rule their departments like fiefdoms so it is difficult for young scientists to secure adequate research funds.

The result, with some exceptions, is atrophy. Susumu Tonogawa, winner of the 1987 Nobel prize for medicine for work done in the US, once said he could never have won his award if he had stayed in Japan.

To be fair, government officials are trying to deal with the problem by developing new national institutes, in order to skirt around traditional university pecking orders, such as Tokyo university's Institute for Advanced Technology set up in 1988.

But young researchers find it hard to join such an institute before they obtain a doctorate — since doctorates can only be awarded at a university. Also, the independent institutes face the same difficulties securing money as other public research bodies.

One solution is to appeal to industry for funds — as happened with the recent establishment of the International Institute for Research into High-Temperature Superconductivity, staffed by scientists from the public and private

sectors but supported mostly by corporate money. The most ambitious scheme is the Science and Technology Agency's programme for Exploratory Research for Advanced Technologies (Erato) which has sponsored 16 projects since 1987.

Erato cuts across traditional lines, picking out individual scientists and allocating funds for about five years to remove financial pressures. The researchers include scientists in public and in private organisations, including both Tonomura and Nishizawa. The emphasis is on laboratory rather than theoretical work since laboratory research requires the biggest funds.

Nishizawa supports the Erato programme. But in general he says there is too little evaluation of the relative merits of projects. "There is no proper assessment. Everybody is levelled down by the lack of money. First we should find some people skilled at evaluating scientific projects, then we should double the budget."

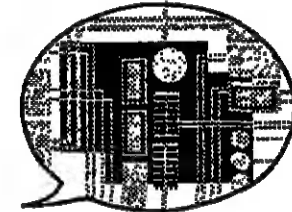
Scientists argue that the government's contribution to R&D is even smaller than the figures suggest

But Nishizawa doubts whether his prescription will ever be adopted since it would require the complete reform of the educational establishment. Too many people would have too much to lose. It is likely that while the quality of Japan's publicly-funded research programme will improve at the margins due to projects like Erato, there is little prospect of the transformation of universities into genuine centres of scientific excellence. The scientists at Tokyo university may have to work in the corridors for a long time to come.

The series will continue next Tuesday with an article on research and development in the UK.

Full, frank and open

By Alan Cane



TECHNICALLY SPEAKING

If any doubts remain about the power of the "open systems movement", today's announcements from International Business Machines, the world's largest computer maker, should dispel them.

Open systems are computers which obey common industry standards so that machines from different makers can be connected together and use software from different manufacturers.

Such systems offer lower costs to users but narrower margins to manufacturers. So many makers prefer to stay with proprietary designs — systems which are not compatible with those of other makers and so lock customers into buying equipment from just one company.

IBM is launching a small version of its medium-sized AS/400 family of computers. Bundled in with the announcement is a pair of "statements of direction" which suggest that the last bastions of proprietary design are at last collapsing.

Statements of direction in IBM-speak indicate commitments to developments on which customers can rely for future planning. IBM's statements commit it to AS/400 machines which comply with

the Posix operating system and run Cics (Customer Information Control System) on AS/400 computers.

This means that AS/400 joins IBM's mainframe and personal computer families in at least the appearance of "openness" — compatibility with other makers' equipment. Posix is a set of rules approved by the Institute of Electrical and Electronic Engineers which ensures that software written to Posix rules will run on a Posix computer. With the acceptance of Posix the AS/400 family, hitherto proprietary, puts a foot in the open camp.

Today's announcements also mean that the AS/400 range looks like being IBM's main computer range for the future. Cics is a transaction processing monitor, so far available

only on mainframes. Its availability on AS/400 suggests a broadening role for the mid-range family in IBM's strategy.

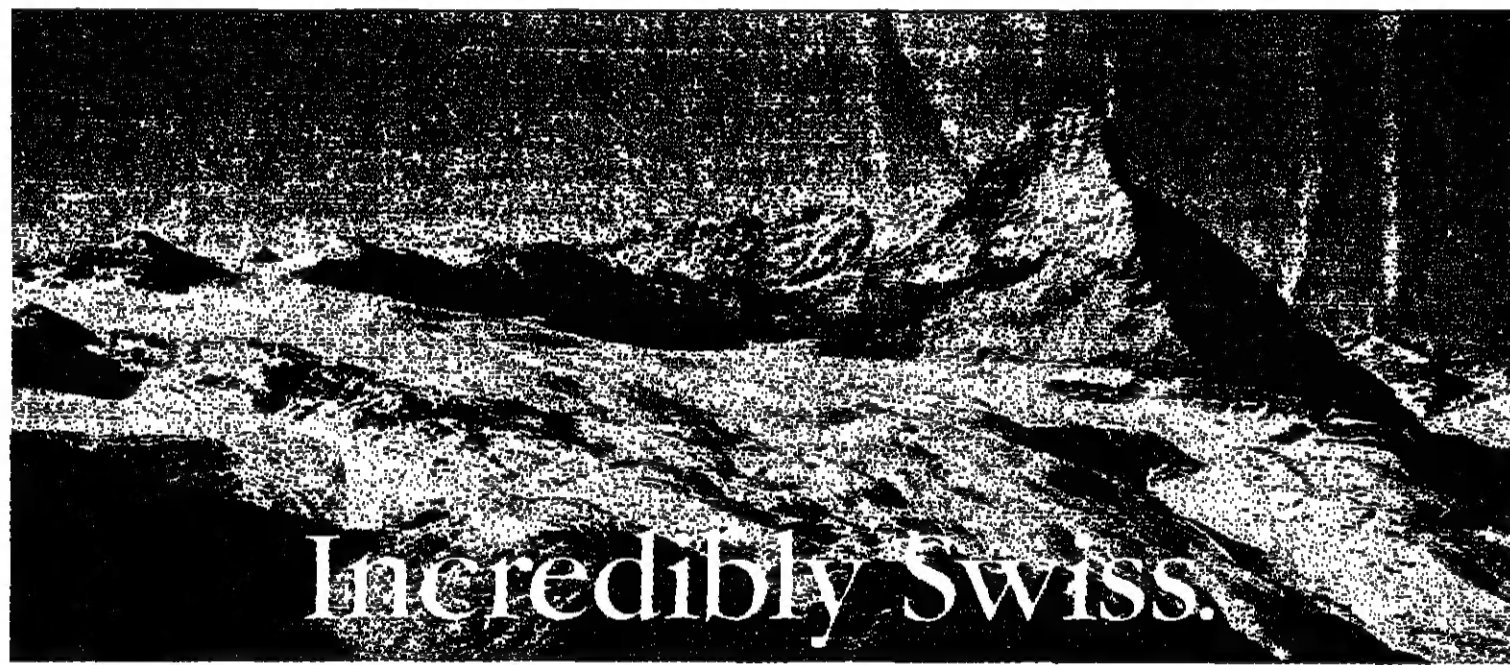
In past years, IBM has been plagued by a plethora of different product families each with its own operating system. Digital Equipment profiled in the 1980s from this; its Vax range used the same VMS operating system for all machines.

Success in the mid-range is critical. Some 30 per cent of IBM's income is derived from mid-range sales while revenues from PCs and mainframes are stagnant or declining.

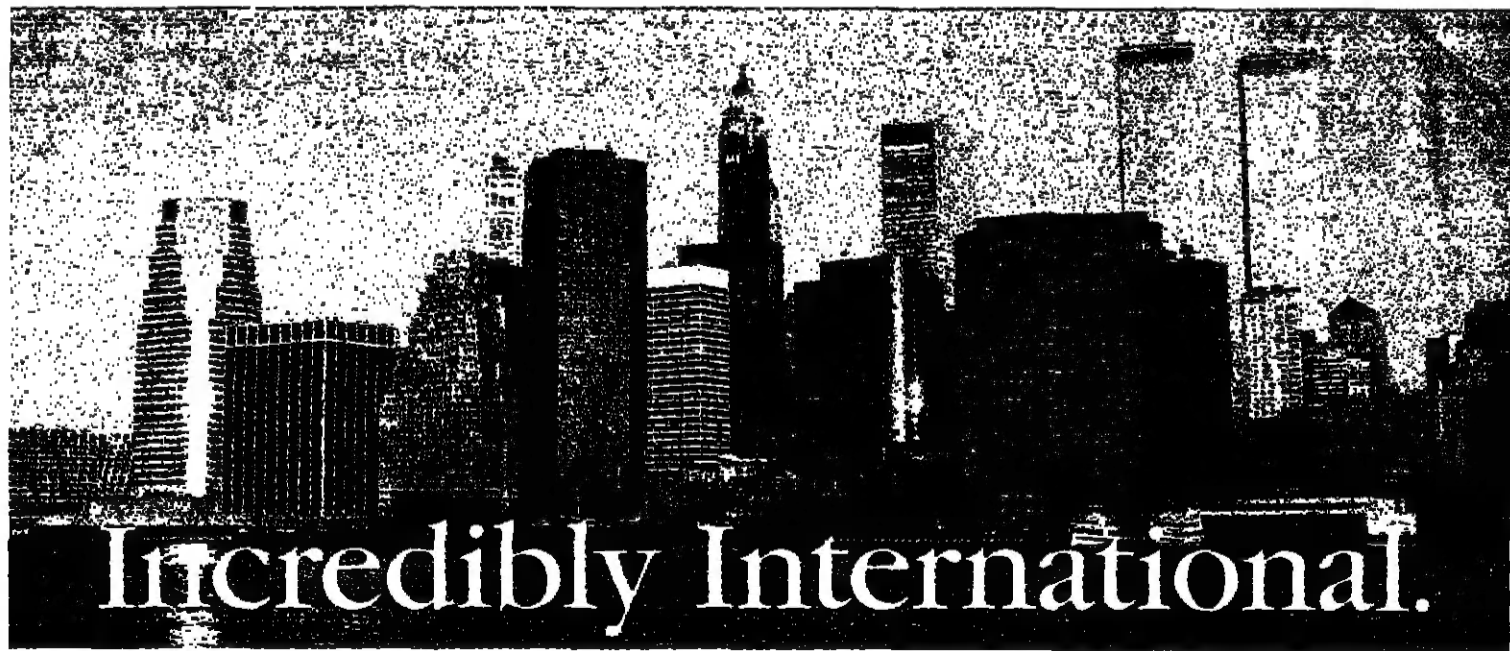
With the introduction of the low end AS/400, the range stretches from a system costing \$7,142 and with capacity for four users to one with the power of a small mainframe. The aim is to increase the power of the dual processor machine at the top of the range by adding more processors.

Computer enthusiasts will remember that the AS/400 grew out of the System/38 which in turn was derived from the principles developed in IBM's Future Series, which was aborted in the 1970s to the fury of IBM's top technologists.

In the new style AS/400 family with added openness, it looks increasingly if Future Series has come home to roost.



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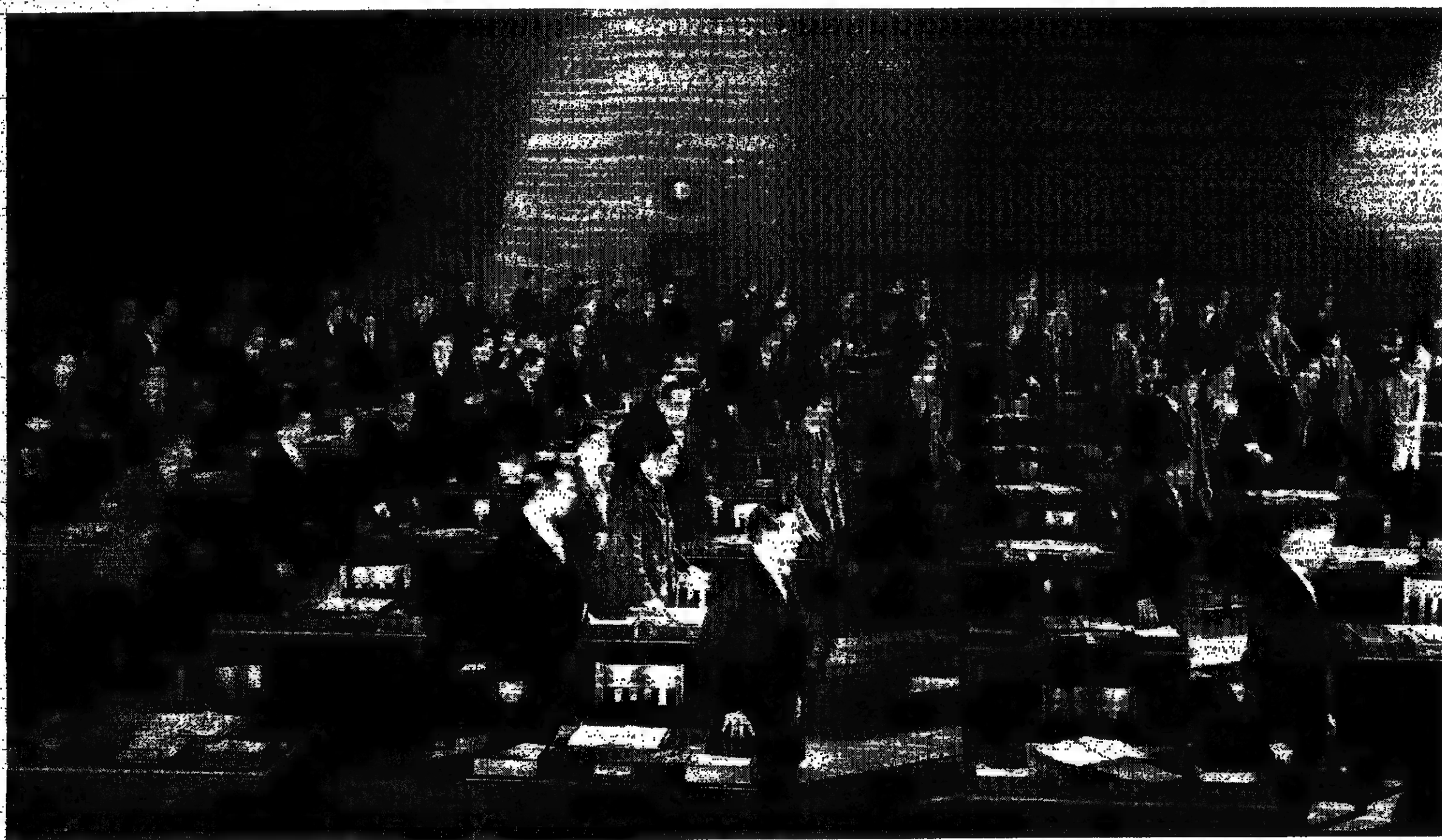
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CONTRACTS

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SIMON ENGINEERING has won a turnkey contract worth **£16.8m** to build what is believed to be the first in-vessel system in the US to compost municipal solid waste (MSW).

The materials recovery, composting facility, which is designed to compost 700 tons a day, will be constructed in Baltimore, Maryland in conjunction with a private developer, FERST, for Baltimore Inc. a subsidiary of F and E Resource Systems Technology Inc. and Chrysler Capital Corp. a diversified financial services company based in Stamford, Connecticut, which have formed a limited partnership to develop, own and operate the MSW recycling and composting plant. Credit Suisse is the lead financing for the partnership.

The company also

oper. FERST, for Baltimore Inc. a subsidiary of F and E Resource Systems Technology Inc. and Chrysler Capital Corp. a diversified financial services company based in Stamford, Connecticut, which have formed a limited partnership to develop, own and operate the MSW recycling and composting plant. Credit Suisse is the lead financing for the partnership.

Head office car parking

A.F. BUDGE (BUILDING), based in Leeds, has secured new building work worth **£1.2m** in the past month. The largest is for the design and construction of a two-storey car park at the head office of Waitrose in Bracknell, Berkshire.

The company also

started work on a **£1.2m** contract for the PSA in London. The PSA is a research centre in Loughborough which includes drainage, foundation and works for the School of Fuel Management and the chemical technology building.

Somerset auction facility

AGATE GROUP, based at Heaton, Derbyshire, has secured new building work worth **£28m**.

Following the construction of auction centres at Measham, Leicestershire and Newport, Gwent, ADT Auctions has awarded a **£4.6m** design and build contract for an auction complex at Bridgwater, Somerset.

The centre will incorporate a vehicle auction hall, large undercover viewing, customer parking and is equipped with self-contained entry control and valeting facilities.

The Bridgwater complex is strategically located in a satisfactory customers' requirements in the West Country, being adjacent to Junction 24 of the M5 motorway.

Other design and build contracts recently commenced in the East Midlands area include an **£800,000** project for the construction of a loading bay and associated external works for Carters Drinks Group at Kegworth, Leicestershire, close to Junction 24 of the M1 motorway.

In the Nottinghamshire area, Burnhill Golf Centre has appointed the group to construct a two-storey clubhouse and driving range valued at around **£1m**.

Agate's involvement with various phases of construction work at T.A.V.R., Nottingham, has led to a **£300,000** contract for the construction of a two-storey T.A. Centre at its premises.

Hostel refurbishment

A former Victorian hotel in Walsingham is being converted and the building restored to its former glory under a **£3m** development project being carried out by UNITED HOUSE through its design and build division.

Ambrosden Hotel, a 150 room red brick and stone building is being converted into 47 single-bedroom flats and studio apartments, under a partnership with United House, enabling Westwinds City Council to offer low cost homes in the borough. The original external features are being retained and

upgraded to reinforce the natural elegance of the area and the internal layouts are being improved to provide optimum services, safety features and access facilities.

United House are currently undertaking £10m worth of contracts for Westwinds City Council including schemes specifically aimed at providing housing for the capital's homeless.

Continuing in progress is the conversion of houses into flats, **£1.5m**, and Gloucester Terrace - repairs and restoration work, **£1m**.



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Tuesday September 3 1991

Investors
pipe up

DESPITE the succession of accounting scandals that has scarred the commercial landscape in Britain over the past few decades, the focus on accounting practice has been striking for the last of heavy-weight contributions from those whose business is not directly involved: the investment institutions. It is not that they are simply polite to chip in. A call from Mr David Tweedie of the Accounting Standards Board (ASB) for users of company accounts to review their accounts has elicited an uncharacteristically powerful and welcome response.

Not only the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) but in their respective shopping lists, individual institutions have also put in their own, alongside the Committee of British Industry and the Institute of Accountancy. The setting of standards, which involves enhanced independence and legal powers, has turned out to be rather a behemoth in the producer world than it was under the guise of the old Accounting Standards Committee. What a pity this handwagon took so long to gather impetus.

Mr Major
in China

CHINA cannot be ignored. Whether the issue is political, regional, humanitarian, commercial or connected with international security, China has to be considered. But whatever the realpolitik, there remains the question of how to handle one of the world's most pleasant and co-operative regimes. It is only to be on China's own terms.

John Major, not the first leader of a large industrialised nation to go to Beijing since the Tiananmen Square massacre two years ago. Mr Toshiki Kaifu, Japan's prime minister, has been there by a short time and he is about to be followed by Mr Andreotti of Italy. Nor is Britain the first nation to do a recent deal with China, as it has done over the Hong Kong airport project. Bush fought for, and narrowly won, extension of the US-favoured action trading with China this summer.

The case for Mr Major's visit is that without his personal imprimatur, the airport deal would not have been reached and that Hong Kong would have remained as a result. The reality is that neither Britain nor the US are doing what it wants with Hong Kong. The hope is, as Douglas Hurd, foreign secretary, put it over the weekend, that the Chinese come to see that it is in their own self-interest to preserve the vitality of Hong Kong, and human rights there, into the next century.

There is much beyond the current geographical confines of Hong Kong. If real political and economic change comes in China with the passing of its present generation and acolytes, it will be the most important movement has been preserved inside China. It currently thrives,

reports for the US and Exchange Commission (SEC). The Accounting Standards Board has already moved to address some of the problems. A definitive rule on sheet items will probably be ready in November, as will a rule on cash flow statements, subject to further deliberations on the remittance of profits in the light of institutional concern. The ASB also hopes that the call for an American-style reporting format will partly be satisfied by the refinement of its relatively tough draft rules, published in April, dealing with abuses of the profit and loss account, also by forthcoming proposals requiring more interpretative discussion of profits by management.

Early days
It is too early to pass any judgment on the likely effectiveness of the new financial setting process. And there are other areas for the institution to address, not least the potential conflict of interest between the consultancy work for their clients, which is beginning to worry the NAPF, and that conflict of interest in the audit. The management of at least one leading British accountancy firm recently appeared to be in a greater anxiety to please the audit committee than to ensure that the integrity of its accounts. A more active institutional stance in these matters nonetheless suggests that accountancy's new regulatory regime is not a promising start. The sound accounting and auditing will never be a substitute for good investment judgment. Some fund managers were capable of detecting a smell in the accounts of Polly Peck; they were not. An educational task has still to be fully addressed in the institutions' own back yard.

China's controlled economy, in the special economic zone of Shenzhen, itself dominated by Hong Kong commercial interests. It is greatly in Hong Kong's, Britain's, China's and the rest of the world's interest that this process of economic liberalisation should continue.

The regime in Beijing, however, makes it hard for anyone to be freely forthcoming. China has its own international agenda, not necessarily connected with any Western or international interests. Its human rights record is appalling, from Tibet in Tiananmen and beyond; it will not be the world's most inflammatory regions; it underpins and underwrites some indefensible regimes, like Burma's. There are also tantalising hints of change - not blocking the United Nations role in the Gulf conflict, a possible moderating hand on North Korea, accepting the nuclear non-proliferation treaty - but these are ounces on one side of a scale outweighed by pounds on the other.

Mr Major's trip, like Mr Andreotti's, is always going to be a golden opportunity for the regime's propagandists. If he has a message for the Chinese people, they will not hear it, except by short-wave radio. They will be told, directly, that his presence during the current policies. If Mr Major cannot at restrictions on his freedom to speak openly during his visit, it is to be regretted. It can hardly have escaped the prime minister that to be seen in the streets of Moscow as the friend of freedom is pleasant; to be seen as such in the streets of Beijing is risky, but important.

without inhibition; but it will not work. Confidence is already forfeited, and the policy in international bank supervision will be just central. When the Bingham report finally appears, it is certain to be at least a history as action plan - and it will be suspected (no doubt unjustly) that it is as long as the evidence is unpublished.

Meanwhile the Congressional hearings into Hong Kong (and the Chinese) continue to be a cry out for comment or refutation. It is late in the day, and high time for more progress.

The sky above London's Hyde Park will be awash with colour later this month in a fireworks display to mark the culmination of the biggest celebration of Japanese culture in Britain.

The Japan Festival will probably be the first time that thousands of British people to their first Japanese theatre, music, and poetry.

Even though the British are cosmopolitan than they are, Japanese culture still quite alien. We are happy wearing Italian shoes, eating French food, drinking Mexican beer, and watching American feature films. By contrast, Japanese culture has not yet made its way into our lives.

The commercial success of the Japanese, who listen to crystal ball music thanks to their portable compact disc players, we can curl up on our settees to watch films whenever we like, thanks to their video recorders, which play through their large, flat-screen televisions. We can watch and replay vital moments in our family histories thanks to their lightweight video camcorders.

The products of Japanese electronics companies have spread around the world by virtue of their increasingly cheap and compact size. In control of the sounds and images we perceive. In British living rooms, some Japanese technology. For some people, evenings and weekends would be unimaginable without it.

The commercial success of Japanese consumer electronics has raised questions for the west. How should we defend our values? How should we respond to the competitive threat they pose?

But the growing dependence of much of our lives upon Japanese technology also raises an intriguing social question. What using their products, are we imbibing Japanese patterns of behaviour and values? How are our lives and values being changed by them?

At first sight it seems possible that Japan would be economically powerful and yet culturally passive. After all, it is not as if the Japanese invented consumer electronics. Most of the important consumer electronics inventions - the video-cassette recorder and the compact disc - have come from Europe and the US. The Japanese have been adept at manufacturing these products; they did not invent them.

Nor does consumer electronics serve as a platform for the spread of indigenous Japanese culture. It is largely just a delivery mechanism for Western culture. If anything, the spread of Japanese television, video and hi-fi is hastening the spread of US culture. This interdependence of Japanese hardware and Western "software" - industry jargon for films, music and other electronically-transmitted entertainment - was confirmed by Sony's purchase of Columbia Pictures and CBS Records and Matsushita's acquisition of MCA, the entertainment group.

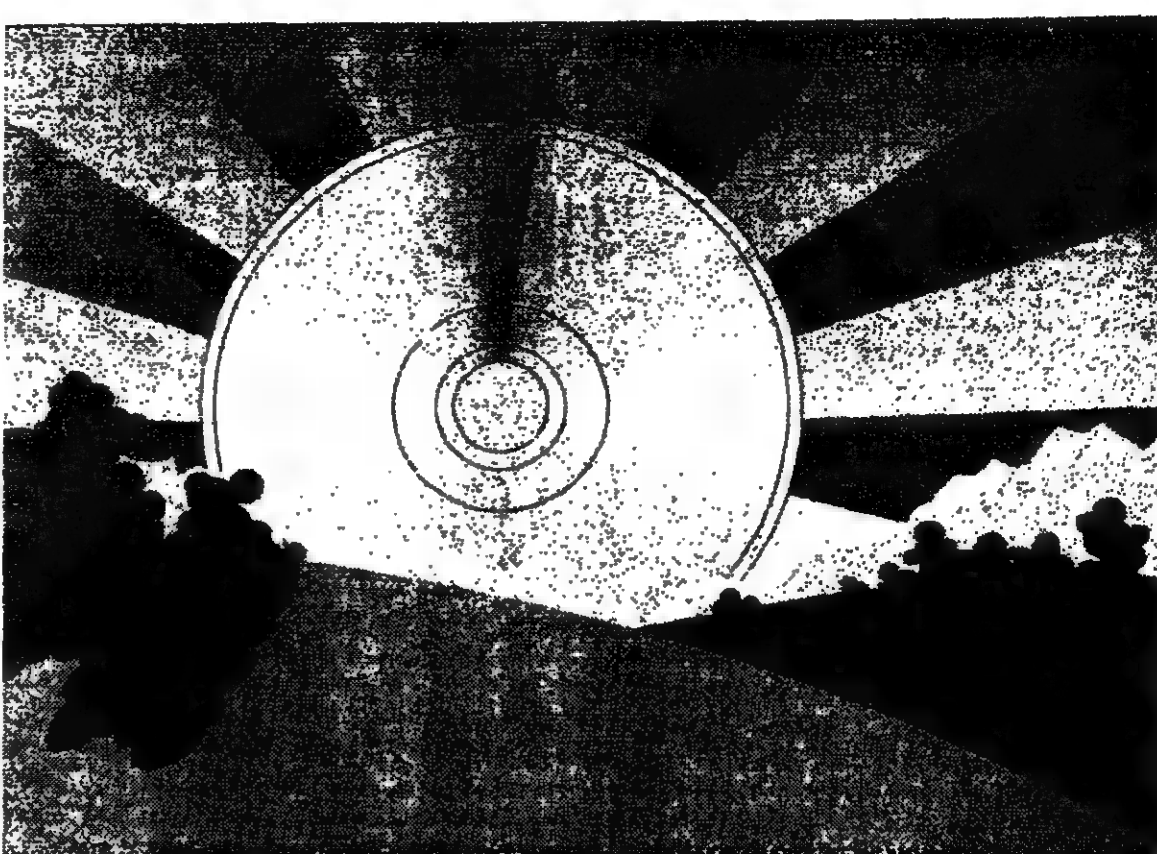
Moreover, by Western yardsticks Japan may seem culturally inhibited. Europeans and North Americans are often so transfixed by the scale of Japan's economic success that they do not notice there are some things the Japanese seem to do badly. Aside from a handful of leading designers, the Japanese are relatively little known in the style of public exteriors. The architecture of

What to do with David
What's to be done with Dr David Owen now that he has handed in his political notes? Nothing symbolises the gap between the City and Westminster more than a debate about what to do with an ex-politician. Few politicians have gone on to be a great success in business although, admittedly, some business people have travelled the other way.

Some City folk think Owen would make a good ambassador for Sir David. As Governor of Hong Kong, a tough talker, he would revive the colony's image during its final years as part of the British empire.

Non-City types think he would do less well as a caretaker governor than as a financial adviser. Sir Edward de Caen, an adviser of London, says Owen is well over £400,000 a year, and Tony Rowland will certainly not be a success in place before next year's annual meeting. Owen has always been in Africa and probably would not mind getting his hands on a map.

Charles Leadbeater argues that Japanese technology is increasingly becoming the arbiter of perception and experience

Masters of the
interior universe

most Japanese cities and villages is usually dull and often ugly, in large part because of the lack of space and the hedonistic pace of life dictated by post-war industrialisation.

Whereas Paris has the grandeur of La Défense and London attracts people because of its historic buildings and parks, the Japanese have only the most limited public spaces in which to gather. Apart from watching baseball, the main public cultural activity is shopping, carried out with a zeal which can stun even the most dedicated European consumer.

But these measures do not tell the whole story. For Japanese consumer electronics products, and the industries that produce them, have a cultural power of their own. Subtly, and in ways we may not notice, they are changing our lives.

It may be that there is nothing intrinsically Japanese about all this. The growth of consumer electronics is, after all, just another stage in the process of industrialisation, as new generations of cheaper and more sophisticated products replace older vintage of more expensive and less reliable ones.

But this seems unlikely. For a variety of reasons - some of them cultural - the Japanese are particularly well-equipped to exploit to the full the technological and social revolution made possible by microelectronics. They may help to explain why Japanese electronic products have spread so widely even if we use them to see and listen to Western culture.

First, the Japanese seem far more interested in the quality of interiors rather than the style and look of exteriors. So Roppongi, the club and bar district of Tokyo, is full of nondescript, multi-storey buildings which you could mistake for dull blocks were it not for signs alerting you to lavish bars, restaurants and clubs on upper and basement floors. The outward signs are as partial a guide to the inner workings of such places as a keyboard is a guide to the semiconductor at work inside a computer.

You have to look inside, into interiors, to find the Japanese impact on us rather than looking at exteriors. Second, space at a premium, products have to be slim and compact. The fastidious sense of detail and neatness which Japanese housewives display on production lines or in the design of microelectronic products is in part management philosophy, in part an everyday pattern of behaviour.

Third, the Japanese have a natural attitude towards consumption, according to Mr Masatoshi Naito, head of design at Matsushita, the electronics group. Mr Naito says of the television and hi-fi his group makes: "You in the west think of these prod-

ucts as consumer durables, things which last. For us consumption is an act which must be undertaken in bursts. Periodically, Japanese consumption is a cycle of new products replacing old products, everything in a process of change, nothing endures. We do not have a Japanese 'permanent'.

This attitude makes Japan particularly well-suited to the fast-moving world of electronics with new products rolling off production lines in quick succession.

Fourth, it follows from the relative lack of interest in permanent, public exteriors that Japanese product designers are more interested in creating monuments to ideologies or values. This is in stark contrast to Western designers such as Raymond Loewy, the master of such consumer products as the Coca-Cola bottle, and architects such as Le Corbusier, who had ambitious visions of modern cities fit for Western people to live in.

The Japanese are much more interested in designing products that fit into people's lives. Mr Kenji Ekuwa, the president of IHI Industrial Design who is widely regarded as the master of Japanese industrial design, says: "In the west you have heroes as crusaders, moral heroes who attempt to impose their values through their designs. Here we want to make tools which people can use. We want to know how people live now, rather than from a vision of how they should live. We create tools which can always be improved if to their jobs more effectively in their people's needs."

Perhaps the most profound effect of Japanese technology is having on Western ways of viewing the world. It constantly blurs the line between the real world and the world created by electronics. Electronics products are tools to reshape our experience, to give us ever greater choices about what we experience and when. The most recent example is the worldwide rise of the lightweight, hand-held camcorder.

As a result, real world experiences - weddings, birthdays and holidays - can be recorded and replayed at will. Experience becomes a malleable, electronically-generated image.

The Japanese seem more willing to step over or simply disregard the line between the real and the electronic. This is a more widespread and arguably a more profound revolution in the way we see the world than all the temples of architectural modernism. A few thousand people will each day see the Lloyd's building, London's most famous modernist building, millions each day rely on Japanese technology to deliver to their sights and sounds. The Japanese are not altering the way we see the real world, they are doing something far more radical. They are taking us further and further into a different world of electronic images and sounds.

Having opened up this virgin territory of the electronic world, and encouraged us to take our first steps into it, the Japanese are determined constantly to expand the frontiers. Having applied microelectronic technology to places - particularly our living rooms - they are now applying it to people. Microelectronics is going mobile.

If you frisked the average Japanese businessman you would find his pockets full of electronic technology - a portable compact disc player, a lap-top computer, electronic diary, miniature tape recorder, tiny television, the list goes on. Things you could previously only do in a single place - write a memo, call a customer, listen to a symphony - can now be done on the move. You do not have to go back to your home or the office to have access to the electronic world; it can travel with you, you can plug into it wherever you are.

In future, the line between the real and the electronic will probably blur further, to the extent that it may not be fully recognisable. This is the principle behind karaoke, the bar-room singing craze which is spreading around the world. People sing into microphones as the backing music from popular songs plays around them.

People are using electronics to become what they are not, pop stars and film stars. The logical extension of the karaoke principle is virtual reality. Virtual reality machines are like flight simulators for training aircraft pilots, except they offer a much wider variety of simulated worlds, using a combination of computers and graphics generators.

So far, virtual reality products exist only in prototype. But if, and when they reach the shops, they could radically alter the way we play - and work. Rather than coming home to watch a video recording of a performance on television, you could actually become a cowboy, strut through the dusty streets of a cowboy town, walk into a saloon and order a drink. The images you see respond to your real world commands.

This technology will create comprehensive, all-embracing electronic realities for people to relax and live within. The line between the real world and the electronic world disappears as you submerge yourself in your chosen, virtual reality.

The Japanese live in interiors made rich by a stream of electronically generated information and images. They have not changed our view of the world by creating grand avenues, lowering cathedrals or skyscrapers. They will continue to change it by widening the horizons of the new world of inner, electronic experience.

development plan for the territory, and President Aylwin is to visit the territory in the very near future.

Even so, Chilean hawkish refuse to believe that the French threat to others' Pacific possessions has gone away. Another stamp in the map set depicts the island of Tahiti as an octopus with tentacles embracing, not just Easter Island, but New Zealand as well as the Sandwich Islands to boot.

Pint-sized index
To commemorate the opening of London's Canary Wharf, Europe's largest financial development, Observer has invented a new inflation indicator. It is based on the price of a pint of beer at the Henry Addington, whose only pub in Canary Wharf, and is named after an incompetent Tory prime minister.

The price of a pint of IPA today's morning is £1.44. Although pretty average for London, it is 129 per cent more than the cheapest pint - which according to the Index is to be found at the West Road Social Club in Loftus, Cleveland.

Observer intends to monitor the price on an occasional basis. After all, it might prove a barometer of the development's fortunes.

Invisible
Past. Does Moody's, the US credit-rating agency, know something British taxpayers don't? Their publicly owned Bank of England has just issued a letter which begins: "Due to the company's stock, you are among a select group of British companies being offered a corporate visibility listing in Moody's investment publications."

Privatisation...?

OBSERVER



Worthing headquarters, he has decided to move out. In the space of less than 12 months, the Observer has lost its lucrative and exclusive UK franchise to distribute Nissan vehicles after years of increasingly public rows with Japan's number one car maker. Moreover they have lost the object of the biggest raid ever mounted by the Inland Revenue.

Between the SMMT and NUK he had a short-lived career in executive search, which would give useful pointers on how to handle new challenges.

Averted
Phew... every day everyone has only one job: to avoid the Franco-Chilean war. France is to withdraw from circulation its Polynesian territory's postage stamps, which, by picturing Chile's Easter Island, set the Chileans arming for a French invasion of their property.

France's ambassador in Santiago, Daniel Lequeurtier, is to hand an official explanation to Chile's foreign minister Enrique Silva Cimma. And while it is not an apology - indeed, it expresses displeasure at anti-French hysteria - it has evidently persuaded the Chilean government to stand down the gun crews on the warships still steaming to the crisis point.

The affair has worked out fairly well for the Observer. Its owners have at last recognised it as the arbiter of ostentatiously unveiling a

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INTERNATIONAL COMPANIES AND FINANCE

Merger sets off on the wrong foot

Linotype-Hell finds the going tough, writes Andrew Fisher

WE were caught wrong-footed," admits Mr Wolfgang Kummer, managing director of Linotype-Hell, the German printing equipment company formed last October from the merger of the two companies which make up its name.

The combination of Linotype and Rudolf Hell created the world's biggest company in the field of image-setting and reproduction technology, with turnover set to exceed DM1bn (\$570m) in 1991. But this and last year are not proving the easiest of times in which to begin a new life together. Not until 1992 does Mr Kummer expect the benefits of the merger to show through in the form of savings in development, labour and production costs.

In the first half of 1991, net profits of Linotype-Hell plunged by 70 per cent to DM11.3m, from DM113.3m in the first half of 1990. The company's sales, however, were not as disappointing, with the group doing nearly 75 per cent of its business in the second half of the year.

"Last year was the merger year, 1991 is the reorganisation year, and 1992 should be the first year when the synergy effects start to show through fully," says Mr Kummer. "If the economic climate is favourable, then 1992, and especially 1993, should be the year of our first joint success."

Clearly, the problems in important foreign markets have not been solved. Mr Kummer says he would like to merge with Hell 10 years ago. But Siemens, which owned the company and now has a 33 per cent stake in Linotype-Hell, did not want to sell.

However, Siemens realised that Hell, which was run as a separate subsidiary, did not really fit in with the rest of the electrical and electronics group. "Hell was a bit of a stranger in Siemens," he notes.

As the recession has gripped key overseas markets such as the US, where business was up in dollar terms last year but down in D-Marks, Linotype has found its rivals stepping up the pace.

"Competition is fierce," Mr Kummer says. "A typical Linotype product costs around DM100,000, whereas Hell, which specialises in colour technology, are at DM1m. Moreover, a number of customers have waited to see how the merger would turn out and what new products would emerge."

Disappointed by the impact of the last big trade fair, Drupa, in the heart of 1990, Linotype-Hell hopes to improve its February. Both Drupa, the world's biggest

exhibition in the industry, were held both printing and pre-press equipment, and Imprinta (pre-press only) take place in Düsseldorf.

However, the group has already brought out its first "synergy product," the Linotype 650, a high-quality image-setter.

The company hopes its order book will start to revive following the introduction of the new product in 1992.

Last year, Hell's order book slumped by around 30 per cent. Linotype fared better, with only a slight downturn in the merger last year - so that group turnover (including three months with Hell) was 18 per cent higher in 1990 to DM30m.

After reorganisation costs, and the dividend of DM15 to DM13 a share, Linotype has impressed investors with its strong earnings performance since its flotation in 1977, the group has been well received.

"The two companies form a strategic alliance straight out of the text book," says Mr Andrew Insam, an analyst with Bank in Liechtenstein (Frankfurt).

Text book, however, rarely apply in business. Linotype-Hell is now having to write its own script - how to make a merger work in a recession and yield new profits during the ensuing recovery. It is still in the first few chapters.

Coming on top of the US recession, the DM crisis and a severe dampen on demand, Linotype's UK subsidiary, also responsible for the Middle East, has suffered a double blow. The UK market was already hurting in July 1990, the UK reported a big order book. Kummer said it only needed a letter of credit, along came Hussein. Mr Kummer ruefully. Around a third of the UK company's sales, which account for a fifth

of the year, they had fallen by up to 12 per cent to around the 1984 level.

ASW's comment yesterday that prices in continental Europe "are not sustainable unless supported by state aid or subsidy, no longer permitted by the European Commission", echoes complaints made by British Steel and German producers about state-owned businesses, particularly in France but also in Italy.

A recent example is British Steel's call, backed by the UK government, for the European Commission to investigate a deal involving Crédit Lyonnais, the French state-owned bank, paying FF2.5bn (\$420m) for a

10 per cent stake in Usinor Sacilor, the state-owned steel producer.

Mr Cox said yesterday that the Commission should look at "why the industry is losing money. If it were all private sector, it could not be tolerated."

A sign that ASW has been right in its claim to be one of Europe's lowest cost producers was that it worked to normal capacity. "The output of our steelworks increased yet again."

The fall in first-half turnover from £251.9m to £206.2m was caused by the lower raw material and finished prices.

It was the first profit fall at ASW - formerly Allied Steel and Wire - since its formation as a joint venture between British Steel and GKN, the UK components group, in 1981 as part of the Phoenix programme. It was floated on the stock market in May 1988.

Although more than half its turnover lies in the UK, Mr Cox stressed that the domestic recession in construction and engineering had been a less important factor in the profit decline than the continental price war.

Fully diluted earnings per share fell to 5.4p from 16.1p and the interim dividend is held at 4.5p.

IBM to expand in mid-range market

By Alan Cane in London

INTERNATIONAL Business Machines, the world's largest computer manufacturer, today launches a new low-cost small computer in a bid to capture a larger share of the strategically important mid-range systems market.

The mid-range market covers the requirements of small businesses, together with divisions and subsidiaries of larger organisations.

It is the only part of the computer business that is growing appreciably at present.

It now represents IBM's largest single source of revenue, with about \$14bn in sales last year, overtaking both mainframe and personal computers.

There are several hundred suppliers in the mid-range field, however, providing machines from powerful workstations in small mainframes, and IBM has found it impossible to dominate the market in the way it controls the mainframe computer business.

The new machine, the small, is in the technically innovative AS/400 family, will be direct competition for systems from the US makers Sun Microsystems and Hewlett Packard.

IBM have recently announced powerful, low-cost workstations which follow "open systems" rules, making it easy for computers from different manufacturers to be connected and to run the same software.

In a sharp break with its accepted practice, IBM will announce today that it intends to "open" the design of the AS/400 range so that it will obey some of the rules of open systems.

The new AS/400 machine, called the 9402-D02, is estimated to give 18 per cent better performance than last year's smallest model at a 26 per cent lower price.

The machine has some features designed to make it easier for non-computer specialists to operate. The cost is about \$12,000 for a basic machine.

Details, page 10

Boral reports first fall in earnings for 21 years

Mark Westfield in Sydney

BORAL, the Australian building materials and energy group, reported its first earnings downturn for 21 years yesterday, with a 24.4 per cent drop in net profit for the first half of 1991 to A\$211.4m (US\$165.1m).

Sir Peter Finley, chairman, described trading conditions for the year as "the worst in the company's history" and said he saw no sign of an upturn.

Boral has grown on the back of a series of housing and commercial property booms and through vigorous acquisition to become the country's 17th largest company, with market capitalisation of A\$1.5bn.

Sir Peter said three years of high interest rates in Australia and international monetary policy had destroyed confidence and plunged the economy into deep recession.

Boral has substantial operations in the US and Europe, but still makes three quarters of its revenue in Australia.

All the regional operations reported operating profit falls.

Australia fell 12.5 per cent, Europe 75 per cent, and the Asia Pacific region 39 per cent, making an overall fall of 25.6 per cent before interest and tax to A\$452m. Sales revenues fell 2.9 per cent to A\$3.9bn.

Despite the dramatic earnings fall in earnings in the latest year, 1991 still proved the third highest profit Boral has made after 1989 and 1990.

Mr Bruce Kean, managing director, said that, as another sign of the depth of the latest recession, group sales fell for the first time in 18 years.

In the UK cut demand in Boral's brick, ash and lightweight aggregates operations, dragging earnings down for the whole European division.

Mr Kean said Boral would expand in Germany, where its brick, tile, and quarrying businesses were doing well.

Boral's US operations were affected by a 42 per cent drop in housing starts in California, where the savings and loans crisis had hit chopped off funds

ing to developers and home buyers. The group lost A\$32m on its US businesses after writing off A\$23m from closures of uneconomic brick and clay products plants.

Mr Kean said the group was confident the US operations had seen the worst and would return to profit this financial year.

One bright spot in the otherwise gloomy outlook was the 29 per cent increase in sales in the Asia Pacific region.

Boral reported a 24.7 per cent increase in interest costs to A\$121.8m, because of increased borrowings to buy the Midland Brick business in Western Australia and the Federal government's decision to bring forward the payment of 45 per cent of company tax to within 30 days of the start of the financial year.

Directors declared a fully franked, or tax free, final dividend of 8 cents, against a 13 cent final payout last year. This took the annual dividend to 30 cents, against 35 cents in 1990.

Telefonica slips 6.4% to Pta51bn

By Peter Bruce in Madrid

TELEFONICA, the Spanish telecommunications monopoly controlled by the state, has reported a 6.4 per cent fall in pre-tax profits, to Pta245bn (\$466m), for the first half of 1991.

The company said its profits had risen, however, by 15 per cent but all of that was accounted for by large tax exemptions awarded to return for investment. Telefonica is making in the Barcelona Olympics and the World Fair last year.

The company added, however, that it had managed to raise the number of telephone lines in service in Spain to 12.9m, a 6.2 per cent increase on the end of the first half of 1990.

Unaudited net profits at Tabacalera, the state-controlled tobacco monopoly, rose 10.4 per cent to Pta5.6bn in the first half, the company reported yesterday.

Sales advanced 4.3 per cent to Pta263.2bn.

The company said net profit was boosted by a significant increase in tobacco sales and a 3 per cent increase in the price of tobacco products.

Heavy provisions in several of its loss-making subsidiaries hurt the company's first-quarter profit figures, Tabacalera said.

The group's consolidated pre-tax profits rose from Pta251bn to Pta245bn.

Telefonica said its investments of Pta245bn in the first half of the year represented a 15.4 per cent fall on 1990.

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Thyssen to buy two welding companies

SAF bought the two companies

SOUDURE Autogène Française (SAF), a 59 per cent subsidiary of French industrial gases group L'Air Liquide, plans to sell two welding companies to Thyssen, the German engineering and steel group, Reuters reports.

Together, their annual turnover is some FF450m (\$75.5m).

Fontargen, based mainly in Germany and Switzerland, and Beltrac, based in Belgium, are both part of L'Air Liquide Holding, the 100 per cent owned group in April for an undisclosed sum.

Thyssen said that it had bought the companies as part of a sustained expansion in the welding equipment sector in an effort to increase its global market share.

European price war hits ASW returns

By Jane Fuller in London

BYFTER European price war in products, which has been raging since late last year, was the main reason for a drop of more than 80 per cent in the interim pre-tax profit of ASW Holdings.

The UK steel and wire group made £8.1m (£13.6m) pre-tax in the six months to June 30, compared with £21.1m. The suddenness of the decline is illustrated by the fact that the group made more than £20m in the second half of last year.

Mr Alan Cox, chief executive, said prices in 1990, when the group made £40.3m taxable profit on £484.3m turnover, had been only marginally above the 1986 level. Since the end of

the year, they had fallen by up to 12 per cent to around the 1984 level.

ASW's comment yesterday that prices in continental Europe "are not sustainable unless supported by state aid or subsidy, no longer permitted by the European Commission", echoes complaints made by British Steel and German producers about state-owned businesses, particularly in France but also in Italy.

A recent example is British Steel's call, backed by the UK government, for the European Commission to investigate a deal involving Crédit Lyonnais, the French state-owned bank, paying FF2.5bn (\$420m) for a

10 per cent stake in Usinor Sacilor, the state-owned steel producer.

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TURKISH IRON AND STEEL WORKS

U.S. \$ 15,000,000

SHORT TERM EXPORT FINANCE FACILITY

TURKIYE HALK BANKASI

Lead Managers

Banco Exterior Internacional, S.A.

Bank Brussels Lambert S.A.

Banque Internationale de Commerce

Funds provided by

Monte Paschi Banque S.A.

ABC International Bank PLC, Paris Branch

Deutsch-iranische Handelsbank AG

NMB Postbank Groep N.V.

S.A. Société Nationale de Crédit à l'Industrie (Krediet aan de Nijverheid)

Banco Exterior Internacional, S.A.

Bank Brussels Lambert S.A.

Banque Internationale de Commerce

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Agent



BANQUE INTERNATIONALE DE COMMERCE

T.D.Ç.I.

TURKISH IRON AND STEEL WORKS

U.S. \$ 10,000,000

SHORT TERM EXPORT FINANCE FACILITY

TOBANK

Lead Managers

Banque Internationale de Commerce - Société Générale

Funds provided by

Arab International Bank, Bahrain

Banque Internationale de Commerce

Société Générale

Ansbacher Bankers Limited Dublin

Banco Exterior Internacional S.A. London Branch

La Compagnie Financière Edmond de Rothschild Banque

S.A. Société Nationale de Crédit à l'Industrie (Krediet aan de Nijverheid)

Agent



BANQUE INTERNATIONALE DE COMMERCE

INTERNATIONAL CAPITAL MARKETS

Hungary bank's Ecu200m issue ready for launch

By Simon London

NATIONAL Bank of Hungary is expected to launch its anticipated Ecu200m five-year issue in the international market today, despite continued unrest in neighbouring Yugoslavia and political upheaval in the Soviet Union.

The deal, lead managed by Credit Suisse First Boston, will be priced at a yield of about 12 1/2 to 13 per cent. A final decision on pricing will be made this morning.

Participants in the deal have been pre-selling the issue for some days and report good demand from investors despite the political uncertainties in eastern Europe. However, syndicate managers are not predicting an easy sell-out and many are expecting to work hard to place their allocations.

Intermediaries are expecting a flurry of deals in other currency sectors this week, with the US dollar, Canadian dollar, Ecu and yen sectors tipped for more new issues.

However, yesterday's activity was subdued, with US mar-

kets shut for the Labor Day holiday. The main interest centred on a £100m five-year issue by Skandia Capital, the funding arm of the Swedish insurance group.

Lead managed by S.G. Warburg, the issue carries a coupon of 11 per cent and was re-offered to Ecu at a

INTERNATIONAL BONDS

fixed price of par. At this level, the yield spread over UK government bonds is 80 basis points.

The lead manager reported good demand from continental European investors attracted by the well-known name. The company is rated Aaa by Moody's and Aaa by Standard & Poor's, the US credit-rating agencies. Against the backdrop of a rising gilt market, the yield spread narrowed to 77 basis points by late afternoon.

Although demand for ster-

ling remains buoyant, supply of bonds may be limited by the lack of currency swap opportunities. Skandia requires sterling funding of its subsidiary, Skandia Life.

Bunelast, the European communications organisation, came with its first issue for almost a year. A Ecu75m three-year offering lead managed by Nomura International.

Union Bank of Finland has upped its Ecu100m medium-term note programme, arranged by Merrill Lynch International. The programme allows for the issue of senior and subordinated notes in 11 currencies, with maturities ranging from a year to 30 years.

It is also an Aaa rating for senior debt from Moody's Investors Service and a single-A rating from Standard & Poor's. S&P downgraded UBF's rating from Aa- in July, citing a deterioration in the bank's domestic operating environment.

Dollar may weaken as investors swap out

By Simon London

THE DOLLAR, riding high in the foreign exchange markets during 1991, could fall in the latter part of the year according to a survey of international investors conducted by Merrill Lynch.

The quarterly survey, carried out by the investment house during July and August, found that 60 per cent of international investors now feel that their investment portfolios are overweight in dollars. This is more than double the 28 per cent who felt that way in the autumn of 1990. The results suggest that investors could switch funds out of the US market, possibly into D-Mark-denominated assets.

However, the survey also found that investors are underweight in D-Marks, against 22 per cent in the autumn of 1990. The results suggest that investors could switch funds out of the US market, possibly into D-Mark-denominated assets.

Against this, a transformation of the Soviet economy along market lines would benefit Europe at the expense of the US. Mr Michael Rosenberg, economist at Merrill Lynch in New York, commented that "the new world order will have a negative influence on the dollar".

However, he also noted that real interest rates, growth and inflation patterns were all positive for the dollar in comparison with other currencies. For this reason, the firm is predicting a slow build-up of downward pressure on the US currency rather than a sudden correction.

The survey is positive sterling, with 61 per cent of investors now feeling underweight in the currency, against 24 per cent in the autumn of last year.

Only 11 per cent of investors felt overweight in sterling assets.

Institutions seek benefit of mutuals

Bernard Simon reports on finance houses' moves into high-fee funds

IN the search for fast-growing, fee-based income, Canada's banks, insurance companies and life insurers aggressively elbowing their way into the mutual funds business.

The financial institutions, most of which took little interest in mutual funds five years ago, now make up six of the top 10 distributors, with assets of almost 20 per cent of the market.

Mr John Vivash, president of CIBC Securities, predicts that the banks and trusts will have a 70 per cent market share by the end of the decade, while Mr Bruce Walters, vice-president for mutual funds at Royal Bank of Canada, says "mutual funds are a key strategic priority" for his bank.

The banks and trusts' aggressive branch networks and the forces give life institutions a competitive edge. The big advantage of the traditional mutual fund distributors can be seen in the fact that they have a long history of selling financial products to the public.

Royal Bank has launched a mutual fund division in 1991 in 10 branches. That is more than twice as many as other representatives at Winnipeg-based Investors Group, which is Canada's biggest fund distributor, measured by assets.

The banks have also entered the equity and bond products,

CANADA'S TOP MUTUAL FUND DISTRIBUTORS

Investors Group
Royal Bank
Can. Imperial Bank of Commerce
Tricorp
Royal Bank of Canada
AGF Management
Templeton International
Bank of Montreal
Laurentian Funds Management
Canada Trust

Source: Investment Funds Institute of Canada

which normally produce higher fees.

The financial institutions' foray into mutual funds is encouraged by predictions that this segment of the Canadian financial services market could be one of the fastest-growing during the next decade.

Only about 10 per cent of Canadian adults currently invest in mutual funds, which is half the penetration of the US industry. The gap is expected to close rapidly as growing numbers of small investors entrust their money to professional managers, and as the financial institutions' sales forces expand.

Mr Selwyn Kosuth, president of the Investment Funds Institute of Canada (IFIC), which represents about 80 per cent of the industry's C\$42bn (US\$37bn) in

assets, says "we're in a huge growth, barring a disaster like the failure of a major US money market fund".

The optimism is borne out by recent experience. Like their counterparts elsewhere, Canadian mutual funds suffered sizeable redemptions after the 1987 stock market crash. But investors have returned en masse since mid-1988.

The flow into funds managed by IFIC members doubled in the first six months of 1991, compared with a year earlier.

The industry is also pulling in plenty of new customers. The number of shareholder accounts has climbed by 14 per cent in the past year to more than 3m at the end of June.

The experienced distributors acknowledge that a shake-out in the industry is inevitable, but they question how far it will go.

Mr Arthur Mauro, chief executive of Investors Group, says that "our structure will approach eventually meeting the banks". Investors, which expects C\$2.5bn in sales this year, plans to boost its salesforce from 1,800 to 2,500 by 1995. Mr Mauro doubts that in the long run banks and insurance companies can be as successful as specialised distributors

in selling mutual funds. He predicts that, although bank-managed funds may pull in business in a bull market, they will do more poorly than others when the bears appear. "No one expects money in a bank to drop in value," he says.

As for insurance companies, Mr Mauro notes that "they're great liability managers, but they haven't seemed to catch on as asset managers".

Sales commissions on insurance policies are also more juicy than on mutual funds. A scheme by Investors to promote mutual-fund sales through its sister company, Great-West Life (both are controlled by Montreal's Power Financial Corp) has met little enthusiasm from the Great-West sales force.

Some do not see the banks and trust companies as a threat. Mr Terence Stone, president of Bolton Tremblay Funds, a mid-sized manager, says that "they will add respectability to the product line. They will come up a much wider market for mutual funds".

While that is taking place, however, many bank managers are still through stockbrokers and small, specialised distributors. "The field will increasingly be dominated by financial institutions and a handful of the biggest fund managers," he says.

NZ exchange mulls over Sydney takeover offer

By Terry Hall in Wellington

THE directors of the New Zealand Futures and Options Exchange are evaluating a takeover offer from the Sydney Futures Exchange which values the NZFX at NZ\$85.7m (US\$37.7m).

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Guarded hope of recovery for Norway's bank sector

By Terry Hall in Oslo

NORWAY is cautiously optimistic that its troubled banks will recover, after the NR40bn (US\$14.4bn) in the last five years and public confidence, better reports from Oslo.

"I have reason to believe that we will gradually see a positive development, but the major uncertainty is [still] linked to the property market," said the finance minister, Mr Sigbjørn Johnsen.

State cash is propping up two large banks to help them survive soaring loan losses and reduced credit.

Bankers have lost billions of kroner on loans to those ranging from home-buyers in fish canneries

"We have lost about NR40bn over the past four to five years. Both banks and businesses neglected the equity capital factor in the mid-1980s," said Mr Johnsen.

Capital adequacy rules are now straining the banks. They must raise additional equity to at least 8 per cent of risk-weighted balance sheets by the end of 1992.

To help banks meet these requirements, the minority Labour government this year set up a NR5bn Government Bank Insurance Fund. It will half the fund had been granted to losses in Christiania Bank and Fokus Bank, the country's second and third largest commercial banks.

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August Saab Auto lent \$750m by 22 banks

By Robert Taylor in Stockholm

SAAB Automobile, the company jointly owned by General Motors of the US and Saab-Scania of Sweden, has raised \$750m in syndicated bank financing to achieve product and marketing objectives during the 1990s.

An agreement has been signed with 22 banks covering the \$750m facility that was coordinated by the broker house J.P. Morgan. The broker is

financial adviser to Saab Automobile.

The syndicated bank financing is structured in two parts. First, there is a \$550m four-year, 10-month loan facility with amortisations commencing in December 1993. Final maturity is in 1997.

The second component is a \$200m six-year revolving credit facility, with final maturity in 1997.

The company said the facility had secured the financing necessary for the car company's capital expenditure programme.

Earlier in the year, a \$100m package of equity and subordinated debt was raised by Saab Automobile from its joint owners to cover losses and help fund planned new models.

FT-ACTUARIES SHARE INDICES

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Equity Groups & Sub-sections

Monday September 2 1991

Index No. Day's Change % Est. Value (£m) Gross Div. Yield (%) P/E Ratio to adj. to date Index No. Index No. Index No.

1 CAPITAL GROUPS (123) 875.65 +1.1 9.76 5.52 12.60 23.87 866.19 863.77 858.68 762.55

2 Building Materials (24) 1116.94 +0.5 6.29 5.56 15.40 32.33 1113.80 1113.35 1108.02 954.10

3 Contracting, Construction (11) 1173.73 +0.5 5.31 6.65 14.18 33.40 1174.00 1173.97 1165.94 1211.34

4 Electricals (11) 2446.68 +0.2 6.58 6.33 13.34 65.95 2447.22 2447.22 2435.96 2515.94

5 Electronics (24) 1123.58 +0.1 9.74 5.02 12.86 48.40 1175.70 1176.40 1171.88 1619.91

6 Engineering-Aerospace (8) 409.53 +0.5 16.60 6.12 7.19 12.11 407.68 407.27 410.47 434.23

7 Engineering-General (45) 489.05 +0.1 10.94 5.25 11.32 13.19 483.75 482.80 480.15 416.31

8 Metals and Metal Forming (9) 1452.59 +0.9 14.63 7.63 8.37 17.15 1454.47 1454.47 1451.96 129.97

9 Motors (12) 364.94 +0.1 9.00 6.39 13.62 12.70 360.87 360.28 356.99 309.53

10 Other Industrial Materials (20) 1492.01 +0.3 8.26 4.75 14.22 38.33 1493.34 1494.18 1493.76 1352.63

11 CONSUMER GROUPS (128) 1587.58 +0.3 7.26 3.45 16.98 27.37 1587.58 1587.58 1553.30 1199.48

12 Brewers and Distillers (22) 1945.88 +0.9 7.99 3.45 15.44 34.70 1948.86 1948.86 1948.86 1462.08

13 Food Manufacturing (19) 1452.59 +0.3 9.24 3.91 13.37 24.04 1452.59 1452.59 1452.59 1214.88

14 Food Retailing (17) 2670.74 +0.6 8.04 3.12 16.27 44.38 2675.93 2675.93 2675.93 2476.74

15 Health and Leisure (22) 3802.79 +0.3 5.09 2.28 22.38 35.03 3755.31 3748.60 3719.07 2310.02

16 Hotels and Lodging (23) 2405.62 +0.6 4.27 4.96 14.23 37.19 2383.84 2383.84 2360.67 1742.76

17 Media (26) 1514.84 +0.3 7.28 4.69 17.90 41.56 1495.11 1495.11 1486.26 0.00

18 Packaging, Paper & Printing (10) 1037.47 +0.6 7.38 3.59 17.70 17.96 1030.64 1030.64 1014.10 785.50

19 Retailers (9) 610.08 +0.7 8.23 5.08 15.09 14.09 605.70 605.70 610.01 421.57

20 RETAILER GROUPS (109) 1394.42 +0.4 9.41 4.94 13.26 32.75 1396.66 1396.66 1374.79 1028.48

21 Business Services (12) 1418.26 +0.6 6.61 4.62 16.27 37.08 1406.66 1406.66 1390.41 1057.28

22 Chemicals (21) 1452.59 +0.1 6.71 7.41 18.39 36.41 1450.30 1450.30 1447.99 1057.28

23 Composites (10) 1535.35 +0.9 9.70 6.87 12.45 17.51 1521.74 1521.74 1506.32 1024.96

24 Electricity (13) 2296.47 +0.2 7.65 4.57 16.20 62.68 2318.89 2316.79 2309.23 1962.31

25 Energy (14) 2229.24 +0.4 14.14 5.25 9.05 27.53 2228.54 2228.54 2224.75 0.00

26 Electronic Networks (10) 1577.61 +0.7 6.38 3.05 13.99 28.54 1551.04 1551.04 1545.68 1164.77

27 Water (10) 2447.37 +0.2 16.71 6.29 6.62 118.37 2371.99 2371.99 2374.30 1944.47

28 Miscellaneous (23) 1958.56 +0.6 6.10 4.95 21.33 47.96 1938.28 1940.79 1943.77 1518.77

29 INDUSTRIAL GROUP (240) 1323.93 +0.3 8.43 4.33 14.67 28.74 1307.27 1302.66 1296.47 1043.37

30 Oil & Gas (20) 2501.69 +0.8 10.46 5.50 12.62 78.32 2481.82 2478.49 2461.69 2086.86

31 FINANCIAL INDEX (100) 1424.90 +1.2 8.69 4.48 14.38 32.64 1407.79 1403.23 1396.10 1160.96

32 FINANCIAL GROUP (92) 844.20 +0.0 4.00 5.52 27.93 836.42 836.42 836.42 712.94

33 Banks (9) 986.62 +0.9 4.32 5.40 43.43 36.83 977.56 981.02 983.92 764.03

34 Insurance (11/17) 1628.31 +0.3 3.09 12.61 1407.75 1405.73 1396.68 1384.30

35 Insurance (11/17) 1628.31 +0.3 3.09 12.61 1407.75 1405.73 1396.68 1384.30

36 Insurance (Brokers) (7) 1155.61 +0.1 7.03 5.79 18.62 35.66 1164.42 1167.70 1169.21 850.68

37 Merchant Banks (7) 448.37 +0.1 4.68 12.16 443.67 442.23 439.54 382.66

38 Property (36) 943.27 +0.1 6.09 4.94 22.40 22.40 933.28 932.79 927.13 571.13

39 Other Financial (13) 1452.59 +0.1 6.90 11.61 16.57 262.69 263.31 261.56 258.38

40 Investment Trusts (60) 1553.97 +0.2 3.44 20.33 1242.95 1249.63 1234.05 1075.51

41 ALL-SHARE INDEX (643) 1283.65 +0.9 4.39 31.08 1268.62 1265.31 1259.10 1052.58

Index No. Day's Change % Est. Value (£m) Gross Div. Yield (%) P/E Ratio to adj. to date Index No. Index No. Index No.

FT-SE 100 SHARE INDEX 2679.61 +0.3 10.46 5.50 12.62 78.32 2481.82 2478.49 2461.69 2086.86

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LONDON MARKET STATISTICS

RISES AND FALLS YESTERDAY

RISES AND FALLS YESTERDAY			
	Rises	Falls	Same
 Funds.....	75	0	0
Corporate: Dominion and Foreign Inc.....	11	0	0
Industrial.....	544	105	0
Financial and Properties.....	40	0	0
Oil.....	21	1	0
Plantations.....	1	0	0
Mines.....	1	32	0
Others.....	1	30	0

Richard Gourlay detects signs in the City of the recession receding

used-car (a) and after-sale services. The reduced cost of a combination of capital and power new development purchases, e.g., of dealers in

Robert Maxwell Group, a vehicle for interests of Mr. Robert Maxwell, the British publisher, is to acquire class shares in Viacom as payment for 50.01 MTV stake in MTV Europe.

The Viacom parent is worth about \$200 (£39m). **Robert Maxwell Group** will intend to sell them shortly.

Headlam is in discussions which may lead to the group entering into a agreement to make a "very significant" acquisition.

Headlam is in discussion which may lead to the group entering into a form of agreement to make a "very substantial" acquisition.

September 3, 1991, London
Citibank, N.A., (CSSI Dept.) Agent Bank

LONDON SHARE SERVICE

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LEISURE

1991	Stock	Price	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605
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15/11/2019

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Rate factors hit Swiss franc

CURRENCIES traded quietly, lacking fresh economic news, and waiting for US markets to reopen after yesterday's Labor Day holiday.

The closure of New York and Chicago kept the dollar in a narrow range and there was also little movement in cross rates between European currencies, apart from a weakening of the Swiss franc. The Swiss currency finished weaker across the board as Euro Swiss interest rates eased against equivalent D-Mark rates.

There were no changes in the European exchange rate mechanism grid, with the Italian lira and Belgian franc trading for second strongest positions.

Yield factors supported the lira. In Brussels yesterday the Belgian National Bank kept its seven-day advances rate, the main instrument of credit policy, at 8.50 per cent at a tender against government paper and commercial bills.

Speculation about a possible easing of French monetary policy left the French franc at the bottom of the system, but there was no change in official rates yesterday when the Bank of France injected funds into the Paris money market at 6.00 per cent. The intervention rate was last changed on March 18, and the other main instrument of

monetary policy, the five to 10-day repurchase rate, has been unchanged at 10 per cent since October 31, 1980.

The Danish krone remained the second weakest ERM currency, but has shown some improvement recently, thanks to good demand for Danish government paper. This has followed the Danish National Bank's decision to follow German interest rates higher last month, while having the lowest inflation rate in the European Community at around 2.5 per cent.

At the London close the dollar had fallen to DM1.7455 from DM1.7485; to FF5.9300 from FF5.9375; and to Y136.70 from Y136.85, but had improved to SF1.5300 from SF1.5290. On Bank of England figures the dollar's index eased to 66.6 from 66.7.

Sterling finished unchanged against the firm D-Mark, but was generally stronger after the

latest Mori opinion poll gave the UK Conservative government a two point lead over the Opposition Labour Party. The previous poll in July put Labour five points in front of the Tories and other recent polls have given Labour a lead of between two and nine points.

The high profile of Mr John Major, the UK prime minister, in the Soviet crisis and in the Gulf War earlier this year, coupled with the latest opinion poll, provided some optimism that the ruling Conservatives are capable of winning the next UK general election, which must be held by the middle of next year.

Sterling rose 40 points to SF1.5850. It also improved to SF2.5825 from SF2.5675; to FF5.9925 from FF5.9800; and to Y230.20 from Y230.00, but was unchanged at DM2.9400. The pound's index gained 0.3 to 90.8.

EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	Rate	% Change	% Spread	Divergence
Spanish Ptas	100	165.631	-0.1	0.04	0.04
Belgian Franc	100	40.336	-0.1	0.04	0.04
Italian Lira	1,000	2036.26	-0.1	0.04	0.04
D-Mark	100	3.37566	-0.1	0.04	0.04
French Franc	100	6.55958	-0.1	0.04	0.04
Yen	100	136.70	-0.1	0.04	0.04
Sterling	100	2.9400	-0.1	0.04	0.04
Swiss Franc	100	1.5300	-0.1	0.04	0.04
Portuguese Escudo	100	200.482	-0.1	0.04	0.04
Irish Punt	100	7.87564	-0.1	0.04	0.04

Source: European Central Bank. Data as of 12.00 GMT on Sept 2, 1981. Percentages are calculated on the basis of the previous day's closing rates. The divergence column shows the percentage difference between the actual rate and the rate calculated on the basis of the previous day's closing rates. The spread column shows the percentage difference between the actual rate and the rate calculated on the basis of the previous day's closing rates. The divergence column shows the percentage difference between the actual rate and the rate calculated on the basis of the previous day's closing rates.

STERLING INDEX

Index	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

CURRENCY MOVEMENTS

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

CURRENCY RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

OTHER CURRENCIES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

EXCHANGE CROSS RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

FT LONDON INTERBANK FIXING

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

NEW YORK

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

LONDON MONEY RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

FT LONDON INTERBANK FIXING

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

NEW YORK

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
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French Franc	6.55958	-0.1
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Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

LONDON MONEY RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

FINANCIAL FUTURES AND OPTIONS

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

CHICAGO (Aug 30)

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

PARIS

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

BASE LENDING RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

FT LONDON INTERBANK FIXING

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

NEW YORK

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

LONDON MONEY RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
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Irish Punt	7.87564	-0.1

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Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
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Italian Lira	2036.26	-0.1
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US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
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Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
Portuguese Escudo	200.482	-0.1
Irish Punt	7.87564	-0.1

LONDON MONEY RATES

Currency	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
West German Mark	2.9400	-0.1
French Franc	6.55958	-0.1
Italian Lira	2036.26	-0.1
Belgian Franc	40.336	-0.1
Swiss Franc	1.5300	-0.1
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MONEY MARKET FUNDS

Money Market Trust Funds

Fund	Value	% Change
US Dollar	1.7455	-0.1
Japanese Yen	230.20	-0.1
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French Franc	6.55958	-0.1
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CANADA

INDICES

[illegible]

CANADA TORONTO						Sector Bank Ind. (CU/250)		S&P Composite (1/24/92)	
Aug	Aug	Aug	1991			Ind	799.2	783.5	799.2 (2498)
30	28	27	HIGH	LOW		Ind	683.3	632.6	627.5 (590.4 (241))
						TANWAN ¹		Weighted Price (24/4/91)	
						4073.06		4364.57	4358.35 4352.92
						6305.23 (493)		5715.26 (157)	
						THAIANAL ²		Weighted Price (24/4/91)	
						7317.26		705.45	742.21 694.77
						600.13 (244)		582.40 (241)	
						WORLD		Weighted Price (24/4/91)	
						N.S. Capital Ind. (1/2/78) @		506.81	594.2 502.7 499.2
						502.7 (247)		502.7 (247) 499.2 (247)	

¹Source: Financial Research Corporation. ²Source: M&J Securities Inc. All figures are in Canadian dollars. *1% and above.

TOKYO - Most Active Stocks						
Monday, 2 September 1991						
	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices
Nippon Steel	18.5	420	+15	Hitech Zosen	7.5	944
Meiji Seika	13.8	889	+41	Otsuka Gas	7.1	546
						+7

VENEZUELA

The FT proposes to publish this survey on
September 27 1991.

the FT. If you want to reach this important audience, call

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or fax 071 873 3079

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Scandals and Soviet coup shake equities out of summer sluggishness

By William Cochrane

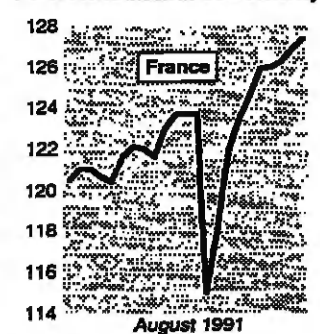
THE LAZY, hazy days of summer did happen this year, but they were overtaken last month by events, some of them earth-shaking, which may have left the financial world a better place.

August started with another stock market scandal in Japan, whose malaise infected the whole of the Pacific Rim. A shaky Tokyo was hoping that *gaifu* - or foreigners - would come in to rescue the market from its depression, as they had six months before.

Attention was diverted to Germany on August 15, when the Bundesbank's long-awaited increases in the discount and Lombard rates were repeated by other central banks in Europe. At about that time, the US moved temporarily downhill on a home-grown bond market scandal involving Salomon Bros. But all of these considerations were set aside on August 19, in the maelstrom of emotions raised by the Soviet coup and its aftermath.

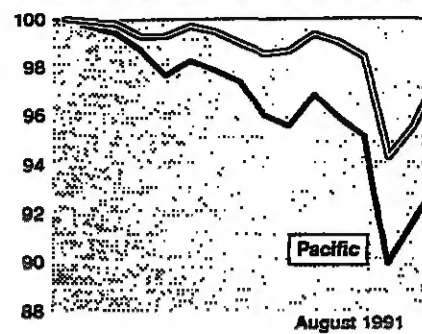
European market indices fell by up to 10 per cent on the day of the coup, while earlier strategies over shot up. In Germany, it more than doubled to DM3.3bn

FT-A World Index in local currency



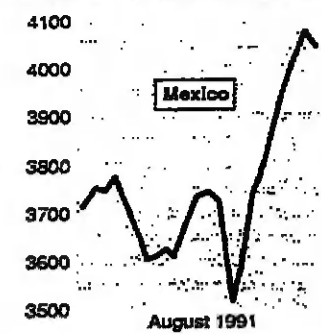
Source: Datastream

FT-A World Index in local currencies rebased



Source: Datastream

FT-A World Index in local currency



Source: Datastream

(\$3.3bn). In Tokyo, daily volume expanded from 200m to 300m shares as the Nikkei index dropped 6 per cent in its fifth worst daily loss; and in the US, down only 2 per cent, volume was still fairly heavy at 230m shares, against 188m the previous Friday.

The coup fanned markets around the world clawed back most of their losses. The US actually ended that week with a rise of 1.9 per cent, as the Dow hit another in this year's succession of all-time highs.

On balance, Mr David Roche, the Morgan Stanley strategist, then felt better about global equity investment. Commun-

nism, he said, was dead; the major obstacle to reform in the Soviet Union had been removed; and east European recovery would be facilitated by reduced political risk, and by the eventual recovery in the Soviet market once reform got under way.

So last week may have marked a new beginning. It was a positive but muted one for global stock markets, as the FT-Actuaries World Index showed a 0.6 per cent rise in local currency terms, with Europe up 0.9 per cent, the Pacific Basin 0.5 per cent, higher and North America just 0.3 per cent ahead.

For Tokyo, the week opened with more scandal worries, this time centring on a hugely overborrowed mystic restaurant. By the end of the week, however, the Asia Pacific region, and Japan within it, seemed to have made fairly positive moves, closing higher over five days while making significant declines on the month as a whole. But Mr Chris Sherwell, an analyst at Smith New Court, is not so sure.

"What drives Asia Pacific markets is growth in the world economy," says Mr Sherwell. "The picture at present is not encouraging, with the US

showing a stuttering recovery - not the big one everybody had been waiting for - and all of Europe affected by the tightening in German monetary policy.

"The Japanese economy is still falling off a cliff while it is awaiting, indeed expecting, a further cut in interest rates soon."

Malaysia went along with last week's recovery but fell 9.2 per cent on the calendar month. While the country has finally undergone the tightening of central bank monetary policy that investors have awaited for months, the market is still fundamentally weak

and likely to stay that way, says Mr Sherwell.

In Europe, Milan brought a securities market scandal to a third continent in succession. The market, depressed by the consequent delay of the August trading month settlement, ended 4.1 per cent lower on the month as a whole, compared with a 1.7 per cent rise for Europe.

The continental star was France, up 2.3 per cent on the week and 0.7 per cent on the month. Nikko Securities, having observed a week earlier that the French government remained desperately anxious to cut interest rates in spite of the German move in mid-month, said last Friday that the market had been driven by rumour, rather than any fundamental appraisal of corporate worth.

However, the French second-quarter gross domestic product growth rate of 0.8 per cent was far above expectations, and Nikko reaffirmed its positive stance on French equities.

Across the Atlantic, Mexico went back to its earlier bullish ways after a quiet period. However, not all analysts were convinced. "The underlying market was a mixed bag, and the index was driven up by Tel-

MARKETS IN PERSPECTIVE

	% change in last month			% change starting 12/10/81		
	1 Week	4 Weeks	1 Year	Start of 1981	Start of 1982	Start of 1983
Australia	+0.52	-0.17	-17.28	+4.08	+2.63	-10.61
Belgium	+0.51	-1.74	-1.25	+12.09	+10.79	-1.38
Denmark	-0.69	-2.21	-8.50	+26.25	+24.21	-7.70
Finland	-0.24	-3.28	-10.84	+8.30	+8.48	-1.47
France	+2.26	+5.28	+7.12	+21.12	+18.15	+4.77
Germany	+1.32	+2.20	-3.40	+13.31	+11.24	-8.14
Ireland	+0.03	+0.38	-11.75	+20.84	+19.08	-13.83
Italy	+1.13	-6.35	-13.78	+5.97	+5.24	-1.81
Netherlands	+0.21	-1.62	-11.73	+19.98	+17.80	-1.38
Norway	+0.87	+2.10	-12.81	+14.88	+13.61	-1.10
Spain	+1.09	+0.50	+5.63	+22.04	+22.88	-15.55
Sweden	+2.62	+0.10	+3.74	+35.88	+38.78	-20.33
Switzerland	+1.73	-0.20	-12.13	+25.22	+19.88	-16.46
UK	+0.26	+2.04	+22.84	+23.43	+23.43	+7.59
EUROPE	+0.55	+1.34	+10.08	+18.98	+18.98	-11.38
Australia	+0.02	-2.80	+5.48	+42.03	+34.34	+14.31
Hong Kong	-0.62	-1.90	+32.36	+35.89	+35.81	-3.85
Japan	+0.84	-5.33	-8.23	+1.19	+15.18	+30.51
Malaysia	+1.62	-8.71	-1.47	+0.07	+11.36	-3.01
New Zealand	-0.35	-3.27	-21.47	+9.33	+22.82	+13.82
Singapore	+3.43	-2.67	+9.00	+20.88	+22.39	+1.40
Canada	-0.34	-0.69	+4.10	+6.00	+23.68	+27.46
USA	+0.57	+2.32	+24.78	+20.46	+58.30	+10.44
Mexico	+7.01	+7.50	+148.92	+114.58	+138.84	+107.86
South Africa	-0.71	-2.85	+9.32	+22.78	+47.67	+26.06
WORLD INDEX	+0.54	-0.63	+6.68	+13.88	+25.80	+8.46

Based on August 29th 1991. Copyright: The Financial Times Limited, London, Stock & Bond County Securities

The post-privatisation stock market apparently attracted foreign investment after Banamex, the most attractive of the companies in the government's bank privatisation programme, was sold to a group of foreign investors.

EUROPE

French state banks take spotlight in quiet session

THE HOLIDAY in Wall Street kept trading quiet throughout the Continent yesterday, writes Our Markets Staff.

PARIS was becalmed after its rise in moderately active trading last week, although the state bank sector attracted some demand. The CAC 40 index ended 0.74 lower at 1,983.52 after moving within narrow range, as turnover shrank to about FF1.15bn from FF2.7bn.

Comments by Prime Minister Edith Cresson at the weekend that partial privatisations were not taboo, provided that the proceeds were used to help the unemployed or increase industrial competitiveness, maintained interest in the government-controlled banks.

BNP investment certificates, which jumped 6.5 per cent on Friday after comments by the finance minister that privatisations could be on the way, rose

Wall Street and Toronto were shut yesterday for Labor Day.

FFR12 or 4.3 per cent to FF2.291, with 57,875 units changing hands. Credit Lyonnais certificates gained FF22 or 4.5 per cent to FF3.608.

Among the day's losers, CMB Packaging fell FF3.80 or 2.4 per cent to FF156.10, on profit-taking and amid speculation that its chairman might resign.

FRANKFURT was remarkable for a DAX index which closed just 0.04 lower at 1,650.46, after a 1.68 rise to 87.91 in the FAZ at mid-session. Dealers said that, where prices changed, moves were exaggerated by the thin volume of trading.

Volkswagen continued to move up on last week's interim report and the launch of its new Golf model, putting on DM4.40 to DM387.40, while other carmakers attracted less attention.

Among the utility-based groups, Viag rose DM5 to DM404 as analysts continued to advance the merits of its quoted subsidiaries, such as the packaging company, Schmalbach-Lubeka, in the same sector, RWE ended DM2

FT-SE Eurotrack 100 - Sep 2

Open	10 am	11 am	Noon	2 pm	3 pm	Close
1129.12	1128.74	1128.68	1128.08	1127.39	1126.50	1126.51

Day's High 1129.12 Day's Low 1126.50

Aug 30	Aug 29	Aug 28	Aug 27	Aug 23
1125.84	1124.82	1121.03	1118.91	1112.34

Base value 1000 (parities)

lower at DM387.50.

MILAN fell as uncertainty about the end of the August trading calendar, postponed from last Friday pending the liquidation of two stockbrokers involved in the market's latest trading scandal, kept investors away. The Comit index closed 2.48 lower at 552.95 in volume estimated at a meagre L60bn, after L70bn last Friday.

Pirelli Spa and Pirelli & C bucked the trend, closing L22 better at L1,975, and L30 higher at L1,680, respectively. Cement shares and papermakers saw profit-taking. Cementir falling L100 to L2,640 and Burgo, down L130 to L8,850 at the close, losing another L50 after hours.

AMSTERDAM rose in quiet business. The CBS tendency index added 0.4 to 91.6, after staying within a tight trading range.

Gist Brocades, the biotechnology company, gained F11 or 2.8 per cent to F137.10 before its first-half results, due today. Foreign demand, mostly from the UK, lifted Philips shares by 60 cents or 1.6 per cent to a year's high of F137.

BRUSSELS saw more action in Colruyt, the retailer which was the subject of foreign buying last week. It remained one of the most traded stocks, with just under 15,000 shares changing hands. It closed up BF70 at BF73.850.

The Bel20 index ended 3.34 higher at 1,132.36 as the blue-chip holding company, Societe Generale de Belgique closed BF780, or 2.6 per cent, higher at BF2,410. Traders said that fundamental investment interest had appeared in Belgian quality shares.

MADRID moved higher, but turnover was low at about Pta7bn, down from Pta13.6bn. The general index added 1.53 to 274.80.

Construction stocks were firm, with Dragados, which reported a 74 per cent rise in first-half net profits, Pta30 higher at Pta975, and Asland up Pta50 to Pta2,625. Telefonos, which rose Pta12 on Friday after a second-quarter profit recovery, fell Pta7 to Pta2975 in light trading.

ZURICH traders said that the US holiday kept interest to a minimum as the Credit Suisse index fell 3.0 to 538.2. Schindler bearers lost SF770 to SF7,490 after the firm's disappointing interim statement last week.

STOCKHOLM declined in fairly thin volumes as investors held back before this month's general elections. The Affarsvarlden General Index fell 7.1 to 1,904.0 in turnover of SKr275m, down from SKr498m.

Skandia, the insurer, recovered most of Friday's losses, which had followed news of a sharp fall in its first-half operating profit. The free B shares rose SKr4 to SKr179.

HELSINKI also eased, with the Hex index down 7.5 at 988.2 in light turnover of FM29m.

The market was waiting for news of pay talks between the government and unions.

ISTANBUL fell for the third consecutive session, as the 75-share index lost 16.84 or 4.9 per cent to 3,138.45. Political worries before next month's general elections kept domestic investors away.

SOUTH AFRICA

A MODEST rally in gold shares, Vaal Reefs rising R2 to R187, took the edge off a fall in industrials in Johannesburg. The respective indices closed 16 higher at 1,093, and 28 lower at 4,086, leaving the all-share 10 lower at 3,349.

ASIA PACIFIC

Hopes of a discount rate cut support Nikkei

Tokyo

EXPECTATIONS of an imminent cut in the official discount rate spurred short-covering activity yesterday, and share prices edged up on demand from foreign investors, writes Emiko Terazono in Tokyo.

The Nikkei average rose 133.14 to close at 22,459.91, after a day's low of 22,175.05 and high of 22,594.44. Volume rose to 300m shares from 300m, supported by foreign activity.

Advances led declines by 716 to 221, while 153 issues were unchanged. The Topix index of all first section stocks closed up 17.80 at 1,749.70 and, in London trading, the ISE/Nikkei 50 index gained 4.08 to 1,345.45.

Weak US economic indicators last week and the recent bankruptcy of an Osaka-based condominium developer encouraged hopes of an early reduction in discount rate.

Overseas investors stepped up buying last week. Trading by foreigners is estimated to have decreased by 30 to 30 per cent in August from July, but net purchases were estimated to have increased to Y800bn from July's Y382bn.

Mr Paul Muller at Schroder Securities said the big question was whether local institutions would follow suit. "Domestic investors now seem cautiously optimistic due to the interest rate outlook," he added.

Interest rate-sensitive issues moved higher, and large-capital issues gained ground on heavy buying by foreigners. Nippon Steel, the most active issue of the day, added Y15 to Y498 and Mitsubishi Heavy Industries climbed Y22 to Y721.

Meiji Seika, the confectioner, moved ahead Y41 to Y886. The issue has been popular recently on reports that the company has developed a cancer-preventing antibiotic.

Morinaga Milk Industry, the dairy producer, rose Y40 to Y7,150 on interest in its new drug Leukoprol.

Arabian Oil, the oil refiner, lost Y20 to Y5,520 on small-lot selling after the company announced that pre-tax profits for the first half to June fell to one-sixth of the previous year's level, with net losses of Y8.5bn.

In Osaka, the OSX average rose 367.51 to 24,175.24 on volume of 36.9m shares, up from

22m. Small-capital shares with good earnings estimates saw buying. Shimano, the bicycle parts maker, put on Y210 to Y2,310 on short-covering.

Kurimoto, the iron pipe maker, improved Y10 to Y1,630. Investors were encouraged by the company's new technology which sorts construction refuse for recycling.

Roundup

OPTIMISM ABOUT interest rate cuts or economic prospects lifted Taiwan and Bangkok, but most markets closed little changed.

TAIWAN rose on hopes of a fall in short-term interest rates. The weighted index gained 130.15 or 2.5 per cent to 4,573.68 in turnover of T\$28bn, up from Saturday's T\$22bn.

The central bank was said to be planning a meeting after this week to discuss cutting

the rediscount rate, in response to demands from the business community. Banking shares, which make up a large proportion of the index and have fallen sharply recently, were the day's biggest risers.

BANGKOK's rally continued in active trading, on growing optimism about next month's World Bank/International Monetary Fund meeting. The SET index gained 17.43 or 2.5 per cent to 723.08, its sixth consecutive rise, on heavy turnover of 5.5bn baht, up from 4.3bn.

HONG KONG finished slightly higher. The Hang Seng index closed 25.28 up at 4,023.54, after reaching an intraday high of about 4,032. Turnover slipped to HK\$1.05bn from HK\$1.35bn.

Hongkong Land Holdings appreciated 10 cents to HK\$3.95 on news that Hongkong Land Property, its wholly owned subsidiary, has agreed to sell

three properties to Chinese Estates Holdings for HK\$1.57bn.

KUALA LUMPUR picked up on bargain hunting. Most of the demand came from domestic institutions and local individuals, but foreign funds were also said to be moving back into the market. The composite index firmed 5.53 to 539.08.

SINGAPORE ended little changed, as the effect of early profit-taking was cancelled out by selective buying. Investors were cautious after the week-end's general elections, which revealed a decline in support for the ruling party.

The Straits Times Industrial index shed 3.23 to 1,428.01 and volume shrank to 25m shares from 67m.

AUSTRALIA edged lower in light dealings. The All Ordinaries index slipped 1.2 to 1,538.1 in turnover of A\$38m, down from Friday's A\$248m.

Boral, the building group, announced a fall of 94 per cent in operating profits, in line with expectations. The stock rose 4 cents to A\$3.23.

NEW ZEALAND declined in thin trading. The NZSE-40 index fell 11.33 to 1,408.82 in turnover of NZ\$38m, against a previous NZ\$13.8m.

Magnat, the brewing and retail company, dropped 15 cents to NZ\$2 after announcing a worse than expected fall in net profits on Friday. Lion Nathan, another brewer, shed 9 cents to NZ\$3.05.

SEOUL fell on rumours that manufacturing companies were planning rights issues and that the government would announce measures to reduce the current account deficit.

The composite index ended 7.99 lower at 675.12. Turnover was light at Won190bn, not far above Saturday's half-day session total of Won112bn.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

REGIONAL AND NATIONAL MARKETS		MONDAY SEPTEMBER 2 1991										FRIDAY AUGUST 30 1991										DOLLAR INDEX																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Figures in parentheses show number of lines of stock		US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	1991 High	1991 Low	Year ago (approx)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
Australia (69)		146.35	-0.2	128.77	126.46	132.81	124.15	+0.0	5.00	146.88	129.35	126.87	133.23	124.18	151.58	112.74	144.27	146.35	-0.2	128.77	126.46	132.81	124.15	151.58	112.74	144.27	146.35	-0.2	128.77	126.46	132.81	124.15	151.58	112.74	144.27																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
Austria (20)		176.10	-0.2	154.06	152.18	159.81	160.81	+0.5	1.75	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	159.81	160.81	177.17	155.03	153.06	159.79	159.16	172.27	154.82	141.20	176.10	-0.2	154.06	152.18	